



Joint Legislative Audit Committee
Office of the Auditor General



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

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-517**

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

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FINANCIAL AUDIT REPORT
STATE DEPARTMENT OF MENTAL HEALTH
GENERAL FUND AND 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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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 State Department of Mental Health - General Fund and General Fixed Assets Account Group, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Merrill Tompkins, CPA; Glenn Ostapeck; Tim Bryan; and Karen Oliver.

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 Mental Health. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code. A separate report will be issued on the department's Agency Funds for the year ended June 30, 1979.

The State Department of Mental Health is the State's mental health authority and administers the Short-Doyle Act, the Lanterman-Petris-Short Act, and other state and federal statutes. The intent of the Short-Doyle Act is to organize, develop, and finance community mental health services for the mentally disordered in every county through locally administered mental health programs. These services include prevention, control, education, and consultation for hospital and county residents. In addition, the act is intended to allocate state mental health funds according to community needs. The intent of the Lanterman-Petris-Short Act is to establish a statewide system of residential treatment programs which provide alternatives to institutional care and which are based upon principles of residential, community-based treatment.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the financial statements of the General Fund and the General Fixed Assets Account Group of the State Department of Mental Health for the fiscal year ended June 30, 1979. 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.

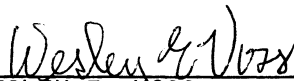
As explained in Note 2 of the Notes to the Financial Statements, the receivables balance stated at \$80,561,559 includes amounts due from various sources. We were unable to confirm approximately 36 percent of the receivables balance at June 30, 1979. Furthermore, the department's records do not permit us to apply adequate auditing procedures regarding these receivables.

In addition, as explained in Note 3, 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's 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 confirm the receivables balance or to substantiate the value of all 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 or 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. MOSS
Assistant Auditor General

Date: July 25, 1980

Staff: Curt Davis, CPA
Merrill Tompkins, CPA
Glenn Ostapeck
Tim Bryan
Karen Oliver

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

JUNE 30, 1979

<u>ASSETS</u>	<u>Governmental Fund Type</u>	<u>Account Group</u>
	<u>General</u>	<u>General Fixed Assets</u>
Cash	\$ 4,300,852	\$ --
Receivables (Note 2)	80,561,559	--
Allowance for deferred receivables (Note 4)	(8,545,433)	--
Prepayments to other funds	549,265	--
Expense advances to employees	391,012	--
Land	--	243,614
Improvements	--	33,085,397
Equipment (Note 3)	--	5,023,755
Construction work in progress	--	5,071,670
Total Assets	<u>\$ 77,257,255</u>	<u>\$43,424,436</u>
 <u>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$102,486,829	\$ --
Due to other funds	2,655,128	--
Uncleared collections	43,299	--
Total Liabilities	<u>105,185,256</u>	<u>--</u>
Encumbrances Outstanding (Note 5)	<u>1,051,369</u>	<u>--</u>
Fund Equity:		
Investment in general fixed assets	--	43,424,436
Operating clearing (Note 6)	<u>(28,979,370)</u>	<u>--</u>
Total Fund Equity	<u>(28,979,370)</u>	<u>43,424,436</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$ 77,257,255</u>	<u>\$43,424,436</u>

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

STATE DEPARTMENT OF MENTAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN OPERATING CLEARING
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
Charges for services	\$ 11,397,635
Intergovernmental revenues	4,772,125
Guardianship fees	96,726
Miscellaneous revenues	<u>3,892</u>
Total Revenues	<u>16,270,378</u>
Expenditures:	
Current:	
Departmental administration	7,920,723
State hospital operations	155,535,117
Local mental health services	307,563,538
Capital outlay	740,240
Minor construction	80,207
Reimbursements	<u>(60,331,637)</u>
Total Expenditures	<u>411,508,188</u>
Excess of Expenditures over Revenues	<u>(395,237,810)</u>
Other Financing Sources (Uses):	
Support appropriations (Note 7)	467,854,697
Miscellaneous adjustments (Note 8)	6,677,606
Reverted appropriations	1,002,729
Intrafund transfers (Note 6)	<u>(97,549,230)</u>
Total Other Financing Sources (Uses)	<u>377,985,802</u>
Excess of Expenditures over Revenues and Other Sources	(17,252,008)
Operating Clearing - July 1	<u>(11,727,362)</u>
Operating Clearing - June 30	<u><u>\$(28,979,370)</u></u>

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

STATE DEPARTMENT OF MENTAL HEALTH
NOTES TO THE FINANCIAL STATEMENTS
GENERAL FUND AND GENERAL FIXED ASSETS ACCOUNT GROUP
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and the results of operations of the General Fund and the General Fixed Assets Account Group of the State Department of Mental Health. 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 Mental Health accounts for only its portion of the fund type category. The State Controller maintains the 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 General Fund is the Governmental Fund Type in the State Department of Mental Health and 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 is accounted for on the cash basis, except for certain reimbursements which are recorded when billed. 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.

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 \$7,818,538.

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. The improvement account includes infrastructure fixed assets; that is, permanent installations such as gutters, drainage systems, lighting systems, streets, and parking lots.

2. RECEIVABLES

The receivables balance of \$80,561,559 at June 30, 1979 contains \$17,381,528 in receivables from hospital residents, their guardians, insurance companies, and the federal Medicare program for costs incurred in providing treatment to state hospital residents. An additional \$63,044,800 represents receivables from county governments, other state departments, and the Federal Government for their share of costs pursuant to the Short-Doyle Act. The remaining \$135,231 is due from employees and other sources.

3. EQUIPMENT

The amount of equipment reported on the June 30, 1979 financial statements is \$5,023,755. However, other equipment acquired as a result of the department's organization includes items from the State Department of Health. Presently, these items are not identified and have not been assigned a value. The department is identifying these equipment items, and when the final accounting is complete and amounts are correctly determined, the value will be recorded.

4. ALLOWANCE FOR DEFERRED RECEIVABLES

This account reflects the amount of receivables that are not expected to be collected within the next fiscal year. Included in this account is \$3,493,178 in receivables from hospital residents, their guardians, insurance companies, and the Federal Government not expected to be collected in the next year and \$4,835,652 in contingent receivables from county governments not expected to be collected within one year. The remaining \$216,603 represents receivables from other state departments and from other sources.

5. ENCUMBRANCES OUTSTANDING

Encumbrances outstanding include valid commitments against budget appropriations for which no goods or services had been received by June 30.

6. OPERATING CLEARING AND INTRAFUND TRANSFERS

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

Intrafund transfers are cash receipts the department remitted to the State Treasury during the year; these receipts represent revenues, reimbursements, and refunds to reverted appropriations.

7. SUPPORT APPROPRIATIONS

Support appropriations are the portions of the General Fund which the legislative Budget Act allocated to the department.

8. 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.

SUPPLEMENTAL INFORMATION

The following financial statement 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. However, as noted in the auditor's opinion, 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.

On the following supplemental financial statement -- Comparison of Budgeted Expenditures with Actual Expenditures -- 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.

STATE DEPARTMENT OF MENTAL HEALTH
 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:			
Departmental administration	\$ 12,031,409	\$ 7,920,723	\$ 4,110,686
State hospital operations	155,681,824	155,535,117	146,707
Local mental health services	257,244,780	307,563,538	(50,318,758)
Capital outlay	2,753,664	740,240	2,013,424
Minor construction	163,455	80,207	83,248
Reimbursements	<u>(4,607,268)</u>	<u>(60,331,637)</u>	<u>55,724,369</u>
Total Expenditures	<u>\$423,267,864</u>	<u>\$ 411,508,188</u>	<u>\$ 11,759,676</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 financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enables 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 in conjunction with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The department generally 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