



County of Riverside

Internal Audit Report

2008-005.1

Countywide Revolving Funds Mental Health Department

April 2, 2009

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
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April 2, 2009

Mr. Jerry Wengerd, Director
Mental Health Department
County of Riverside
4095 County Circle Drive
Riverside, CA 92513

Subject: Internal Audit Report 2008-005.1: Countywide Revolving Funds, Mental Health Department

Dear Mr. Wengerd:

We have completed an audit of the revolving funds held by the Mental Health Department, one of five county departments selected as part of a countywide audit of revolving funds. We conducted the audit during the period February 14, 2008, through November 18, 2008, for operations of July 1, 2005, through November 18, 2008.

Our objective was to provide an independent assessment of the adequacy and effectiveness of internal controls over the use, accounting and safekeeping of revolving funds.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that our objective as described in the preceding paragraph is achieved. An audit includes examining, on a test basis, evidence about the department's effectiveness and efficiency of operations, compliance with applicable laws, reliability of financial information, and performing such other procedures as we considered necessary in the circumstances. We believe the audit provides a reasonable basis for our opinion.

In our opinion, the department has adequate internal controls in place to ensure the proper use, accounting and safekeeping of their revolving funds. However, areas for improvement were noted relating to custodianship of revolving funds, authorized amount exceeds the department's needs, and untimely liquidation of revolving fund advances.

A copy of the reply from the Mental Health Department's management is attached to this report, and excerpts from the reply were presented in the appropriate sections of the report. Management concurred to implement the recommended corrective actions and has already fully implemented three of the recommendations. We will follow-up within one year to verify that management implemented the remaining corrective actions.

We thank the Mental Health Department's management and staff for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM
Auditor-Controller

A handwritten signature in black ink, appearing to read 'M. G. Alexander', written over a horizontal line.

By: Michael G. Alexander, MBA, CIA
Deputy Auditor-Controller

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury

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Executive Summary

Audit Objective Our primary objective is to provide an independent assessment of the adequacy and effectiveness of internal controls over the use, accounting and safekeeping of revolving funds.

Overview Pursuant to California Government Code (Title 3, Division 3, Chapter 2, Section 29320 et seq.), the Board of Supervisors adopted Resolution (74-156) on May 14, 1974, authorizing the establishment of a revolving fund, under the custodianship of a county officer, for use on official county business. The resolution authorizes the establishment of only one revolving fund, not exceeding \$10,000, for a single officer. On January 12, 1982, the Board of Supervisors adopted Resolution (82-75) authorizing the Auditor-Controller to perform the functions of the Board of Supervisors in establishing, increasing, reducing or discontinuing any of the revolving funds.

The officer may deposit the fund in a commercial bank account and issue checks thereon, or use any other appropriate method of safekeeping.

Board of Supervisors Policy D-1 (Reimbursement for General Travel and other Actual and Necessary Expenses), requires that claims are filed promptly no later than the end of the month following when the expenditures were incurred. In addition, Auditor-Controller Standard Practice Manual III-E-1-2.1 (Revolving Funds), calls for maintaining fund balance at an adequate level by submitting expenditures for reimbursement periodically.

Audit Methodology To accomplish our objectives, we:

- reviewed applicable codes, regulations, Board resolutions, policies and procedures;
- gained an understanding of the policies, procedures and practices affecting revolving funds through interviews with key personnel of the Mental Health Department, Office of the Auditor-Controller and Office of the Treasurer-Tax Collector;
- obtained data from the PeopleSoft system and supporting documentation for transactions that were tested;
- analyzed the revolving fund balances with regard to the department's requirements; and
- established fund accountability by way of surprise cash counts and fund reconciliations.

Overall Conclusion In our opinion, the department has adequate internal controls in place to ensure the proper use, accounting and safekeeping of their revolving funds. However, areas for improvement were noted relating to to custodianship of revolving funds, authorized amount exceeds the department's needs, and untimely liquidation of revolving fund advances.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

Results

The Mental Health Department maintains three revolving funds totaling \$50,200. They are broken down as follows:

**Revolving Fund 25: Current Authorized Amount—\$25,000
 Authorized Custodian: Director of Mental Health Department**

This fund is used for providing immediate financial assistance to clients under the Adult System of Care programs. Typically, expenses paid from the fund include medical co-payments, medicines, food, shelter, and other necessities critical to a client's welfare and rehabilitation plan. The fund is also used to pay for hotel registrations and postage. Additionally, the fund is used to make advances to staff to cover their costs in assisting in response to a disaster.

The fund is kept in a checking account at Bank of America, with the department director and six other employees as signatories. The checking account is used to replenish three separate funds which the department assigned to accounting employees as sub-custodians. The details of which are noted below:

<u>Name of Fund</u>	<u>Sub-custodian</u>	<u>Amount</u>
Petty cash fund	Accounting Technician II	\$ 180.00
Change Fund (County Circle)	Supervising Accountant	100.00
Change Fund (Indio)	Accounting Assistant III	25.00
Total		\$ 305.00

During the surprise count conducted on February 14, 2008, we established the composition of the fund as follows:

Petty cash	\$	241.20
Change fund (County Circle)		100.00
Change fund (Indio)		25.00
Un-replenished disbursements		177.80
Outstanding replenishments		7,080.18
Outstanding advances		15,730.13
Bank checking account balance		1,646.32
Total	\$	25,000.63

The outstanding advances of \$15,730.13 are comprised of 225 payments made from October 2005 to February 2008, broken down as follows:

Year the advance was made	Number of Advances	Total Outstanding
2005	1	\$ 250.00
2006	3	25.00
2007	147	6,051.19
2008	74	9,403.94
Total	225	\$ 15,730.13

The department should evaluate the collectability of the advances and write-off any uncollectable loans and advances.

During the period July 1, 2005, through January 31, 2008, this revolving fund was replenished 74 times for a combined total of \$161,283. We reviewed 37 of these replenishments totaling \$74,333, or 46 percent of the total.

**Revolving Fund 74: Current Authorized Amount—\$25,000
Authorized Custodian: Director of Mental Health Department**

This fund, administered by the Mental Health Public Guardian, is used for paying necessary maintenance, security and other expenses of estates under conservatorship in accordance with legal responsibilities as established by the California Probate Code. The fund is a self sustaining fund as it is reimbursed by estates from cash generated through the probate process.

On February 14, 2008, without advance notice, we visited the Public Guardian's office on Chicago Avenue for the purpose of establishing the custodian's revolving fund accountability. The entire fund is kept in a checking account at Union Bank of California, with the department director and five other employees as signatories. We confirmed the balance of the account in the bank at the time of our visit. We established the breakdown of the fund as follows:

Bank checking account balance	\$ 22,244.46
Receivable from an estate	3,095.00
Reconciling items	(339.46)
Total	\$ 25,000.00

The receivable of \$3,095 is from an estate representing the balance of two advances made dating back to August 2004. The reconciling items totaling \$339.46 consisted of \$324 advance deposit from a client and \$15.46 in interest.

During the period June 2006 through December 2007, the available fund balance ranged from \$4,993 to \$21,874. Based upon this, we believe that \$25,000 fund is appropriate for its intended purpose. However, Board Resolution (74-156), which authorizes the establishment of revolving funds, limits funds to a maximum of \$10,000 per custodian. This limit has never been updated since it was determined and approved by the Board on May 17, 1974. It is apparent that a new fund limit that is consistent with current county business requirements should be re-established and approved by the Board of Supervisors. This matter will be addressed in our separate countywide audit report.

**Revolving Fund 118: Current Authorized Amount—\$200
Authorized Custodian: Director of Mental Health Department**

The purpose of this fund is similar to Revolving Fund Account 25. The fund, kept at the Mental Health Department's Blaine Street office, is under the custody of the Administrative Supervisor. This fund was not covered by our review.

Finding 1 All three revolving funds in the department are under the official custodianship of a single person. This is contrary to Board Resolution (74-156) requiring that only one fund can be established for one custodian.

Recommendation 1 Establish only one revolving fund for each custodian and obtain Auditor-Controller authorization for each fund and custodian.

Management's Reply "Concur. Mental Health will change the custodians of Fund #74 and Fund #118 to comply with Board Resolution 74-156, which allows that only one fund can be established for one custodian.

For Fund #74, the custodian would change from Jerry Wengerd, Mental Health Director to William van der Poorten, Chief Deputy Public Guardian. The custodian of Fund #118 would change from Jerry Wengerd, Mental Health Director to Maria Marquez, MH Services Administrator. The AR-1 forms will be submitted to the A/C to make these changes.

Estimated date of corrective action: September 30, 2008.

Estimated cost to implement recommendation: N/A."

Auditor's Comment On September 25, 2008, AR-1 Forms were approved to establish one custodian for each of the Revolving Funds 74 and 118.

Finding 2 Revolving Fund 25 had average monthly disbursements of \$4,832 from July 2005 to January 2008. Management anticipates that the monthly fund usage will increase due to new programs that are being implemented and that a \$25,000 revolving fund is needed to meet its expected level of activity. Our subsequent verification showed that the fund usage has increased to a monthly average of \$9,100 during the most recent six months ending July 31, 2008.

Recommendation 2 The department should review and analyze its revolving fund usage after six months. Based upon this analysis, excess funds, if any, should be returned to the Treasurer's Office in accordance with Auditor-Controller's Standard Practice Manual III-E-1-2.1 (Revolving Funds).

Management's Reply "Concur. The Department concurs with Recommendation Number 2. We will continue tracking Revolving Fund #25 and report our findings within six months.

Estimated date of corrective action: December 31, 2008.

Estimated cost to implement recommendation: N/A."

Finding 3 Revolving Fund 25 has advances totaling \$15,730.13 for medical co-payments, medicines, food, shelter, and other necessities paid on behalf of clients. Of this, \$6,326 represents advances made in 2007 and prior. Additionally, Revolving Fund Account 74 includes advances of \$3,095 that have been outstanding since August 2004. This occurred because the revolving fund custodians did not require the submission of receipts in accordance with Board Policy (D-1) and the lack of a policy to evaluate loans made on behalf of estates. As a result, advances paid from the revolving funds remain un-liquidated for extended periods of time.

In order to ensure that revolving funds are maintained at the appropriate level, expenses must be recorded in a timely manner through the reimbursement process.

Recommendation 3.1 Ensure employees liquidate advances in accordance with Board Policy D-1.

Management's Reply "Concur. The Department agrees that employees should liquidate advances as soon as possible. The Department currently has a policy in place that addresses the timely return of employee receipts. Mental Health Policy # 401 – Mental Health Petty Cash Revolving Funds – states that employees receiving reimbursements or advances from Revolving Fund #25 turn in receipts and unused monies within 2 working days after the expenditure is made. The Department will remind

employees of the current policy and will increase monitoring efforts to ensure compliance.

Estimated date of completion: September 30, 2008.

Estimated cost to implement recommendation: N/A.”

Recommendation 3.2 Evaluate collectability of old balances and write-off worthless advances and loans.

Management’s Reply “Concur. For Revolving Fund #25 – Mental Health will perform monthly reviews of outstanding checks, with the appropriate transfer of unclaimed money to the Treasurer’s office. During the surprise count of Revolving Fund #25, conducted on February 14, 2008, it was determined that there was \$15,730.13 in outstanding advances. The Department has made significant progress in reducing the amount of outstanding advances.

As of August 2008, outstanding advances totaled \$4,490.65. The Department will complete the evaluation of old balances and write-off worthless advances and loans by September 30, 2008.

For Revolving Fund #74 – The Public Guardian’s office already has a policy in existence, Mental Health Policy #410, that addresses the collectability of old balances and write-off of worthless advances and loans. Each month the outstanding debt of the Conservatee estate advances are monitored to determine when reimbursement to the revolving fund is possible. When estate funds become available, a repayment check is issued to the Public Guardian Revolving Fund. If it is determined that an estate will not be able to reimburse the Revolving Fund, the Chief Deputy Public Guardian will initiate the “replenishment” of funds through the Department of Mental Health general funds. The outstanding debt in question has a payment plan in place. No action is required.

Estimated date of corrective action: September 30, 2008.

Estimated cost to implement recommendation: N/A.”

Auditor’s Comment We verified the department has a repayment plan in place to collect this advance and is in the process of evaluating old balances.

Recommendation 3.3 Review and clarify its policy for expenses paid on behalf of estates considering factors such as limits on amounts, loan duration, and charging interest on long-term loans.

Management’s Reply “Concur. The Department will request Board of Supervisors’ approval to add the interest fee to the Department’s current Fee Schedule. Loan

amounts are dependent on the Conservator's responsibility to protect the assets of the estate. The duration of repayment is dependent on the Conservatees ability to pay as established by the Conservator of the estate, and the Court.

Estimated date of corrective action: September 30, 2008.

Estimated cost to implement recommendation: N/A."

Auditor's Comment The Department's fee schedule was updated and approved as Board of Supervisor's agenda item 9.11 on September 30, 2008.



JERRY WENGERD, Director

COUNTY OF RIVERSIDE

Department of Mental Health

Department of Mental Health
Fiscal Services
P.O. Box 7549
Riverside, CA 92513-7549

DATE: September 09, 2008
TO: Auditor-Controller
Audits and Specialized Accounting Division
FROM: *JW* Mr. Jerry Wengerd
Mental Health Department *[Signature]*
SUBJECT: Response to Draft Internal Auditor's Report
Countywide Revolving Funds Mental Health Department

Recommendation Number 1:

Establish only one revolving fund for each custodian and obtain Auditor-Controller authorization for each fund and custodian.

a. **Management position concerning the recommendation:**

X

_____ Concur

_____ Disagree

b. **Comments:** Mental Health will change the custodians of Fund #74 and Fund #118 to comply with Board Resolution 74-156, which allows that only one fund can be established for one custodian.

For Fund #74, the custodian would change from Jerry Wengerd, Mental Health Director to William van der Poorten, Chief Deputy Public Guardian. The custodian of Fund #118 would change from Jerry Wengerd, Mental Health Director to Maria Marquez, MH Services Administrator. The AR-1 forms will be submitted to the A/C to make these changes.

c. **Actual/estimated Date of Corrective Action:** September 30, 2008.

d. **Estimated cost to implement recommendation (if material):**

\$N/A

Recommendation Number 2:

The department should review and analyze its revolving fund usage after six months. Based upon this analysis, excess funds, if any, should be returned to the Treasurer's Office in accordance with Auditor-Controller's Standard Practice Manual No. III-E-1-2.1.

a. **Management position concerning the recommendation:**

X
_____ Concur _____ Disagree

b. **Comments:** The Department concurs with Recommendation Number 2. We will continue tracking Revolving Fund #25 and report our findings within six months.

c. **Actual/estimated Date of Corrective Action:** December 31, 2008

d. **Estimated cost to implement recommendation (if material):**

\$ N/A

Recommendation Number 3.1:

Ensure employees liquidate advances in accordance with Board Policy D-1.

a. **Management position concerning the recommendation:**

X
_____ Concur _____ Disagree

b. **Comments:** The Department agrees that employees should liquidate advances as soon as possible. The Department currently has a policy in place that addresses the timely return of employee receipts. Mental Health Policy # 401 - Mental Health Petty Cash Revolving Funds - states that employees receiving reimbursements or advances from Revolving Fund #25 turn in receipts and unused monies within 2 working days after the expenditure is made. The Department will remind employees of the current policy and will increase monitoring efforts to ensure compliance.

c. **Actual/estimated Date of Corrective Action:** September 30, 2008

d. **Estimated cost to implement recommendation (if material):**

\$ N/A

Recommendation Number 3.2:

Evaluate collectability of old balances and write-off worthless advances and loans.

a. **Management position concerning the recommendation:**

X
_____ Concur _____ Disagree

b. **Comments:** For Revolving Fund #25 - Mental Health will perform monthly reviews of outstanding checks, with the appropriate transfer of unclaimed money to the Treasurer's office. During the surprise count of Revolving Fund #25, conducted on February 14, 2008, it was determined that there was \$15,730.13 in outstanding advances. The Department has made significant progress in reducing the amount of outstanding advances.

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c. **Actual/estimated Date of Corrective Action:** September 30, 2008

d. **Estimated cost to implement recommendation (if material):**

\$ N/A

Recommendation Number 3.3:

Review and clarify its policy for expenses paid on behalf of estates considering factors such as limits on amounts, loan duration, and charging interest on long-term loans.

a. **Management position concerning the recommendation:**

X

_____ Concur _____ Disagree

b. **Comments:** The Department will request Board of Supervisors' approval to add the interest fee to the Department's current Fee Schedule. Loan amounts are dependent on the Conservator's responsibility to protect the assets of the estate. The duration of repayment is dependent on the Conservatee's ability to pay as established by the Conservator of the estate, and the Court.

c. **Actual/estimated Date of Corrective Action:** September 30, 2008

d. **Estimated cost to implement recommendation (if material):**

\$ N/A