



Joint Legislative Audit Committee
Office of the Auditor General



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

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-516**

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

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FINANCIAL AUDIT REPORT
STATE DEPARTMENT OF DEVELOPMENTAL SERVICES
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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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 Developmental Services - General Fund and General Fixed Assets Account Group, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Merrill Tompkins, CPA; Philip Jelicich; Charles Edington; James McAlister; and Kurt Heinrichson.

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 General Fixed Assets Account Group of the State Department of Developmental Services. 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 Special Revenue Fund and Agency Funds for the year ended June 30, 1979.

The State Department of Developmental Services administers the Lanterman Developmental Disabilities Services Act and is responsible for administering certain programs which serve developmentally disabled individuals. State law defines a developmental disability as one that originates before the age of 18, that is expected to continue indefinitely, and that substantially handicaps the individual. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, or autism.

The department has jurisdiction over nine state hospitals. Five of these hospitals--Agnews, Lanterman, Porterville, Sonoma, and Fairview--serve only developmentally

disabled persons. The remaining four hospitals at Camarillo, Patton, Napa, and Stockton serve both developmentally disabled and mentally disabled persons.

In addition to state hospital programs, the department serves developmentally disabled persons through operating regional centers and protective living and social services and by planning and developing a statewide comprehensive network of community programs.

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 Developmental Services 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 \$17,869,252 includes amounts due from various sources. We were unable to confirm approximately 36 percent of this 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 4, 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. The 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 and substantiate the value of 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. VOSS
Assistant Auditor General

Date: August 31, 1980

Staff: Curt Davis, CPA
Merrill Tompkins, CPA
Philip Jelicich
Charles Edington
James McAlister
Kurt Heinrichson

STATE DEPARTMENT OF DEVELOPMENTAL SERVICES

BALANCE SHEET
GOVERNMENTAL FUND TYPE AND ACCOUNT GROUP

JUNE 30, 1979

	<u>Governmental Fund Type</u>	<u>Account Group</u>
<u>ASSETS</u>	<u>General</u>	<u>General Fixed Assets</u>
Cash	\$ 6,376,517	\$ --
Due from other funds	9,582,744	--
Receivables (Note 2)	17,869,252	--
Allowance for deferred receivables (Note 3)	(5,890,152)	--
Prepayments to other funds	889,597	--
Expense advances to employees	1,359,265	--
Other deferred charges	166,144	--
Land	--	1,869,769
Improvements	--	194,305,904
Equipment (Note 4)	--	24,238,229
Construction work in progress	--	58,814,107
Total Assets	<u>\$30,353,367</u>	<u>\$279,228,009</u>
 <u>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$18,627,331	\$ --
Due to other funds	84,897	--
Uncleared collections	141,232	--
Revenue collected in advance	3,738,995	--
Total Liabilities	<u>22,592,455</u>	<u>--</u>
Encumbrances Outstanding (Note 5)	<u>2,569,263</u>	<u>--</u>
Fund Equity:		
Investments in general fixed assets	--	279,228,009
Operating clearing (Note 6)	5,191,649	--
Total Fund Equity	<u>5,191,649</u>	<u>279,228,009</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$30,353,367</u>	<u>\$279,228,009</u>

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

STATE DEPARTMENT OF DEVELOPMENTAL SERVICES

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN OPERATING CLEARING
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
California Medical Assistance Program	\$ 113,420,410
Charges for services	5,409,734
Intergovernmental revenues	2,091,851
Miscellaneous revenues	<u>74,203</u>
Total Revenues	<u>120,996,198</u>
Expenditures:	
Current:	
Departmental administration	8,639,001
State hospital operations (Note 9)	338,754,186
Developmental disabilities programs	138,153,119
Capital outlay	14,324,326
Minor construction	954,117
Reimbursements	<u>(121,754,980)</u>
Total Expenditures	<u>379,069,769</u>
Excess of Expenditures over Revenues	<u>(258,073,571)</u>
Other Financing Sources (Uses):	
Support appropriations (Note 7)	523,608,859
Miscellaneous adjustments (Note 8)	10,864,501
Reverted appropriations	208,027
Intrafund transfers (Note 6)	<u>(262,598,884)</u>
Total Other Financing Sources (Uses)	<u>272,082,503</u>
Excess of Revenues and Other Sources over Expenditures and Other Uses	14,008,932
Operating Clearing - July 1	<u>(8,817,283)</u>
Operating Clearing - June 30	<u>\$ 5,191,649</u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the General Fund and General Fixed Assets Account Group of the State Department of Developmental Services. 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 Developmental Services 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 Developmental Services 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 a cash basis, except 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 \$37,489,041.

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 \$17,869,252 at June 30, 1979 includes \$6,478,141 in receivables primarily from hospital residents, resident guardians, insurance companies, and the Federal Medicare Program for costs incurred in providing care to state hospital residents. The balance also comprises \$7,765,681 in receivables from employees and from county, state, and federal agencies for reimbursement of program costs as well as \$3,388,303 in contingent receivables from regional centers. The remainder of the balance includes \$237,127 in miscellaneous receivables.

3. ALLOWANCE FOR DEFERRED RECEIVABLES

This account reflects the total receivables that are not expected to be collected within the next fiscal year. Included in this account are \$2,267,125 in receivables from hospital residents, their guardians, insurance companies, and the federal Medicare program. These receivables are estimated to be uncollectible because of private patients' inability to pay and because of patients' lack of coverage by Medicare or insurance companies. This account also includes \$3,388,303 in contingent receivables from regional centers based upon audit

assessments currently under appeal and \$234,724 in miscellaneous receivables not expected to be collected within the next fiscal year.

4. EQUIPMENT

The amount of equipment reported on the June 30, 1979 financial statements is \$24,238,229. However, other equipment acquired as a result of the department's organization include items from the State Department of Health. The newly acquired items have neither been identified nor have they been assigned values. The department is now identifying these equipment items, and as soon as a final accounting is complete and amounts have been correctly determined, the department will record their values.

5. ENCUMBRANCES OUTSTANDING

Encumbrances outstanding include valid commitments against budget appropriations for which no goods or services had been received by June 30, 1979.

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, abatements, 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, 1979 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 General Fund and General Fixed Assets Account Group 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--the amounts shown 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 DEVELOPMENTAL SERVICES

COMPARISON OF BUDGETED EXPENDITURES
WITH ACTUAL EXPENDITURES
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	Budget as <u>Adjusted</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Expenditures:			
Departmental administration	\$ 10,394,825	\$ 8,639,001	\$ 1,755,824
State hospital operations	339,104,134	338,754,186	349,948
Developmental disabilities programs	138,487,014	138,153,119	333,895
Capital outlay	61,629,708	14,324,326	47,305,382
Minor construction	1,056,925	954,117	102,808
Reimbursements	<u>(126,244,576)</u>	<u>(121,754,980)</u>	<u>(4,489,596)</u>
Total Expenditures	<u>\$ 424,428,030</u>	<u>\$ 379,069,769</u>	<u>\$45,358,261</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 the 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