

CALIFORNIA DEPARTMENT OF MENTAL HEALTH

Audit Report

ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS OVER THE OFFICE REVOLVING FUND

January 1, 2009, through December 31, 2009



JOHN CHIANG
California State Controller

November 2010



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California State Controller

November 30, 2010

Stephen W. Mayberg, Ph.D., Director
California Department of Mental Health
1600 9th Street
Sacramento, CA 95814

Dear Dr. Mayberg:

This report presents the results of the State Controller's Office (SCO) audit of the California Department of Mental Health's (the department) administrative and internal accounting controls over its office revolving fund (ORF). The audit covered the period of January 1, 2009, through December 31, 2009, although some transactions were traced to prior years. We conducted our review pursuant to Government Code section 12418, which stipulates that the State Controller shall direct and superintend the collection of money due the State.

Our review disclosed that the department failed to collect nearly \$1.2 million in ORF receivables that were outstanding for longer than 60 days as of December 31, 2009. Nearly \$200,000 of the \$1.2 million was over three years old, and these old ORF receivables are likely uncollectable. The detailed audit findings are that the department did not consistently:

- Collect ORF receivables according to State Administrative Manual (SAM) guidelines.
- Have sufficient written policies and procedures conceiving ORFs.
- Perform discharge from accountability.
- Have adequate separation of duties.
- Demonstrate proper approval for ORF payment requests or adequate signatures for ORF checks.
- Schedule claims in a timely manner or resolve SCO-denied claims quickly for prompt reimbursement of the ORFs.
- Retain supporting demands.
- Use ORF only for permissible payments.
- Perform deposits in a timely manner.

We are pleased to note that the current department management acknowledges the problem identified in our audit report and agrees with the audit recommendations. DMH's Internal Audit Manager stated that the department will post the corrective action plans on their website.

The exit conference was conducted on July 1, 2010. We will conduct a follow-up review in approximately six months to ensure that all of these issues have been appropriately resolved.

Throughout the course of the audit, we received excellent cooperation from various staff members of your department. Their effort and assistance is appreciated.

If you have any questions, please contact Cathleen Dinubilo, Manager, State Agency Audits Bureau, at (916) 327-3928.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

Attachment

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Department of Mental Health's administrative and internal accounting controls over its office revolving fund (ORF) for the period of January 1, 2009, through December 31, 2009.

Our audit identified the following concerns:

- Collect ORF receivables according to State Administrative Manual (SAM) guidelines.
- Have sufficient written policies and procedures conceiving ORFs.
- Perform discharge from accountability.
- Have adequate separation of duties.
- Demonstrate proper approval for ORF payment requests or adequate signatures for ORF checks.
- Schedule claims in a timely manner or resolve SCO-denied claims quickly for prompt reimbursement of the ORFs.
- Retain supporting demands.
- Use ORF only for permissible payments.
- Perform deposits in a timely manner.

Background

The State Controller is required by Government Code section 12418 to direct and superintend the collection of all money due the State. In addition, Government Code section 12410 stipulates that the State Controller shall audit all claims against the State, and may audit the disbursement of any State money for correctness and legality and for sufficient provision of law for payment.

Organization of the Department of Mental Health

The Department of Mental Health leads the State's mental health system and ensures, through partnerships, the availability and accessibility of effective, efficient, culturally competent mental health services. The department oversees a public mental health budget of more than \$4 billion. The department is responsible for providing leadership for local county mental health departments, evaluating and monitoring public mental health programs, administering federal funds for mental health programs and services, care and treatment of people with mental illness at five state mental hospitals and two psychiatric programs, and implementing the Mental Health Services Act. The department employs more than 10,000 people.

Overview of the Department's Office Revolving Funds

The department maintains a separate ORF at each of its eight independently operated locations, including five state hospitals, two psychiatric programs, and headquarters. Our audit was a result of an ORF survey the SCO conducted on 11 state agencies, and the Department of Mental Health was selected for a full ORF audit based on a risk assessment.

The general ORF is used to pay for salary advances, travel advances, immediate vendor payments, and travel expense claims. The department's accounting systems, including ORF operations, are operated independently at five state hospitals, two psychiatric programs, and headquarters. Appropriations the eight locations receive for their ORF are listed below:

<i>Location</i>	<i>ORF Appropriation</i>
Atascadero State Hospital	\$3,500,000
Coalinga State Hospital	\$1,500,000
Metropolitan State Hospital	\$600,000
Napa State Hospital	\$1,650,000
Patton State Hospital	\$1,500,000
Salinas Valley Psychiatric Program	\$200,000
Vacaville Psychiatric Program	\$200,000
Headquarters	\$1,857,600

Objectives, Scope, and Methodology

The objectives of the audit were to determine whether the department has internal controls in place to ensure that:

- Sufficient written policies and procedures exist for properly administering and controlling the office revolving fund;
- ORF regulations, policies, and guidelines are properly followed;
- The ORF is used for authorized purposes only;
- The ORF receivables are collected in a timely manner;
- Supporting documents of collection efforts are evidenced and retained;
- The department schedules claims for reimbursement of the ORF promptly and that the ORF reimbursement claims are properly supported;
- The department deposits ORF receipts in a timely and economical manner;
- Monthly reconciliations are performed accurately and in a timely manner; and
- Discharge from accountability is performed on stale and uncollectable ORF items.

The scope of our audit included a review of government and department policies, processes, procedures, and practices relative to its general ORF for the period of January 1, 2009, through December 31, 2009. We did not review the department's practices and procedures relative to its petty cash accounts, as the amounts involved do not appear to be material.

We performed the following procedures:

- Reviewed pertinent statutes, regulations, and written policies and procedures as they relate to the ORF;
- Reviewed and analyzed relevant audit reports issued by the department's Internal Audits Office, including a report on the revolving fund and a Financial Integrity and State Manager's Accountability Act (FISMA) report;
- Performed a preliminary survey of the eight locations and evaluated the risk at all locations;
- Conducted a detailed testing for Headquarters and Napa State Hospital that included site visits, and performed a desk review of the remaining locations;
- Documented a description of the internal controls over the ORF using an internal control questionnaire, walk-through, and flowcharting of the various ORF processes;
- Reviewed and analyzed CALSTARS accounting reports of the department's outstanding ORF transactions;
- Interviewed responsible officials at all locations either in person or by written questionnaires;
- Performed tests of transactions for the period of January 2009 through December 2009 to ensure that advances to the ORF were properly administered, the fund was used for authorized purposes only, accountability was maintained, the fund was reimbursed in a timely manner, and reimbursement claims were properly supported;
- Selected a sample of uncollected ORF disbursements from each location to determine the reason the amounts have not been collected in a timely manner; and
- Selected a sample of fully processed ORF disbursements from each location to determine compliance with relevant policies and procedures.

We conducted the performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Our audit disclosed that the Department of Mental Health does not ensure that outstanding revolving fund amounts are recorded, collected, and processed accurately and in a timely manner. Additionally, the department lacks proper internal controls in the areas of written policies and procedures, maintenance of supporting documentation, separation of duties, check approvals, discharge from accountability, monthly reconciliations, and claim schedule and bank deposit timeliness. It appears that the ORF has been used on many occasions for impermissible purposes.

**Views of
Responsible
Officials**

We issued a draft audit report on August 12, 2010. Vallery Walker, Internal Audit Manager, responded by letter dated October 4, 2010 (Attachment). Ms. Walker stated that the department agrees with the audit recommendations.

Restricted Use

This report is intended solely for the information and use of the California Department of Mental Health and the SCO; it is not intended to be and should not be used by anyone other than these specific parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

November 30, 2010

Findings and Recommendations

FINDING 1— ORF receivables not collected according to SAM guidelines

The department's locations did not collect office revolving fund (ORF) receivables in a timely manner. As almost all ORF receivables consist of employee/former employee salary and travel advances; agencies should have a minimal amount of ORF receivables outstanding. The department reported a total of \$2,245,181 in outstanding receivables as of December 31, 2009; \$1,178,455 (52.5%) of which was outstanding for longer than 60 days. Of this amount, \$198,897 (16.9%) had been outstanding for more than three years. Generally, the prospect of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote. If the department followed State Administrative Manual (SAM) guidelines properly, almost all outstanding advances should be collected within 60 days.

The \$1,178,455 outstanding receivables can be attributed to not following proper collection guidelines required by SAM. From each location, we selected one sample from the ORF outstanding receivable report (CALSTARS D06/D02) and another sample from the whole-year ORF check disbursement file (CALSTARS H06). A summary of the results for each sample is included in Appendix B and Appendix C, respectively. The detailed results of our audit found that the department did not collect ORF receivables according to SAM guidelines as stated below:

- All eight locations reported outstanding ORF transactions that have not been collected within 60 days. An ORF Receivable Aging Schedule prepared by the SCO disclosed the age of receivables for each location in categories of 0 to 60 days, 61 days to three years, and more than three years (see Appendix A). Headquarters and Napa State Hospital have the largest amounts of ORF receivables more than 60 days old.
- Three locations (Metropolitan and Napa State Hospitals, and Headquarters) did not always send out periodic statements to notify employees who have travel advances but have not submitted a travel expense claim (TEC) to substantiate the travel expenses, and/or have not returned any excess travel advance amounts. (See exception 1, Appendix B, for occurrences of this issue at each location.)
- All eight locations did not always send the three collection letters (or overpayment notification letter) for overdue receivables, or did not send the letters in a timely manner. We found one instance where the collection letters were sent by headquarters five years from the issuance date of the ORF check. (See exception 2, Appendix B, for occurrences of this issue for each location.)

- Five locations (Coalinga, Metropolitan, and Napa State Hospitals; Vacaville Psychiatric Program; and Headquarters) did not prepare an analysis to determine what additional collection efforts should be made if the three collection letters were unsuccessful. (See exception 3, Appendix B, for occurrences of this issue for each location.)
- Five locations (Coalinga, Metropolitan, Napa, and Patton State Hospitals, and Headquarters), upon proper notice, did not always deduct the amount of outstanding travel advances and salary advances from an employee's next regular payroll warrant when the employee was still employed with the Department of Mental Health. (See exception 4, Appendix B, for occurrences of this issue for each location.)
- Human Resources personnel did not verify departing employees' outstanding travel advances and salary advances with ORF accounting staff during exit clearing, at four locations (Coalinga, Metropolitan, Patton State Hospitals and Headquarters). Exit clearing and the outstanding travel advance and salary advance were not offset with the final salary warrant. (See exception 5, Appendix B, for occurrences of this issue for each location.)

For example, a Personnel Specialist at Metropolitan State Hospital failed to research an employee's accounts receivable history when performing the exit clearance process. This resulted in a failure to collect \$2,275 from a previous salary advance.

In summary, the \$1,178,455 ORF receivables outstanding for longer than 60 days as of December 31, 2009, are mainly attributed to not following SAM collection guidelines. To illustrate, Headquarters reported a receivable from a former employee totaling \$1,987 as of December 31, 2009. The individual, while employed with the department, was issued a travel advance on June 5, 2008, when another travel advance had been outstanding. Payroll deduction was not performed for the two outstanding travel advances totaling \$1,987 during the individual's employment with the department. During the exit clearing, the outstanding advances were not verified by ORF staff and deducted from last payroll warrant. If SAM collection guidelines had been followed properly, the department could have recovered the \$1,987 by (1) not issuing the second travel advance when a prior one was still outstanding; (2) sending a periodic statement to request the employee to repay the outstanding travel advance; and if the letters were not successful in collecting repayment, by utilizing a payroll deduction to enforce recovery of the outstanding amount from the employee during employment with the department; and (3) deducting the outstanding advances from the individual's last payroll warrant during exit clearing.

Government Code section 19838 requires reimbursement to the State of overpayments made to employees.

SAM section 8116.2 (Substantiation of Travel Expense for Temporary Travel Advances) states, in part:

A periodic statement must be sent no less frequently than bi-monthly (e.g. on February 1, April 1, June 1, August 1, October 1, and December 1) to notify employees who have travel advances but have not submitted a TEC to substantiate the travel expenses and/or have not returned any excess travel advance amount. . . .

SAM section 8776.7 (Employee Accounts Receivable) states that departments will notify employees (in writing) of overpayments and provide them an opportunity to respond.

SAM section 8776.6 (Nonemployee Accounts Receivable, Collection Letters) states:

Once the address of the debtor is known, the accounting office will send a sequence of three collection letters at 30 day intervals. If a reply or payment is not received within 30 days after sending the first letter, the accounting office will send a second letter. This follow-up letter will reference the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions may be taken in the collection process.

If the three collection letters are unsuccessful, departments will prepare an analysis to determine what additional collection efforts should be made.

SAM section 8580.4 (Employee Separations) states:

Salary warrants will not be distributed to separating employees until the department had verified that all travel and salary advances have been paid (cleared). The verification must be provided by office revolving fund staff.

SAM section 8116.3 (Recovery of Temporary Travel Advances) states:

If an employee does not submit TECs to substantiate the travel expenses within 30 calendar days of the periodic statement date, the total travel advance amount must be deducted from the next regular payroll warrant(s).

SAM Section 8776.7 (Employee Accounts Receivable) states:

If the employee does not agree to repay an overpayment or does not respond to the written overpayment notification by the afforded time, departments will collect overpayments by installment through payroll deduction. . . .

Recommendation

The department's locations should:

- Review their ORF aging report on a monthly basis and ensure that outstanding amounts are cleared in a timely manner.
- Ensure that outstanding advances are collected within 60 days.
- Ensure that periodic statements are sent out in a timely manner to notify employees who have travel advances but who have not submitted a travel expense claim to substantiate expenses.
- Develop a process to ensure that collection letters and overpayment notification letters are sent out in accordance with SAM sections 8776.6 and 8776.7.
- Develop a procedure to ensure that an analysis is prepared to determine what collection efforts will be utilized after the three collection letters are not successful in recovering the receivables.
- Develop a process to ensure that salary and travel advances are cleared within 30 days by a TEC and that advances not cleared within 30 days are deducted from an employee's next payroll warrant in accordance with applicable bargaining unit agreements.
- Direct Human Resources to ensure that any outstanding employee advances are cleared during the exit clearance process; and if not, to deduct the amount due from the final payroll warrant.

Department's Response

The department responded that it will implement the recommendations.

**FINDING 2—
Written policies and
procedures for the
ORF not in place**

Seven locations (Atascadero, Metropolitan, Napa, and Patton State Hospitals; Salinas Valley and Vacaville Psychiatric Programs; and Headquarters) did not have adequate written procedures prescribing guidelines and providing direction to employees regarding the ORF. A correlation appears to exist between adequate collection procedures and the amount of ORF receivables outstanding for more than 60 days. Patton, Atascadero, and Coalinga State Hospitals provided the majority of the written policies and procedures and had smaller amounts of outstanding receivables older than 60 days among all locations. In contrast, Headquarters and Napa State Hospital had no written ORF collection procedures and had the highest number of ORF receivables outstanding for more than 60 days. (See Appendix D.)

The 2009 FISMA report pertaining to the ORF is not adequately supported. The department's corrective action plan states that policies and procedures have been implemented, although the majority of locations did not provide SCO with detailed ORF procedures. It is our understanding that the internal audit manager requests updates bi-annually from the department on the recommendations from the 2007 FISMA report.

SAM Section 8776.6 (Nonemployee Accounts Receivable) states:

Each department will develop collection procedures that will assure prompt follow-up on receivables.

SAM 20050 (Internal Control) states in part:

State entity heads, by reason of their appointments, are accountable for activities carried out in their agencies. This responsibility includes the establishment and maintenance of internal accounting and administrative controls. Each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures, and organizational charts. The ultimate responsibility for good internal control rests with management.

Recommendation

The department's locations should:

- Develop or update their policies and procedures manual for ORF to ensure that all SAM revolving fund and collection regulations are specified and enforced, as well as provide appropriate training to staff on an ongoing basis.
- Share procedures as appropriate.

Department's Response

The department responded that it will implement the recommendations.

**FINDING 3—
Discharge from
accountability not filed**

Five locations (Atascadero, Metropolitan, and Napa State Hospitals; Vacaville Psychiatric Program; and Headquarters) did not file a request for discharge from accountability of uncollectable amounts due from private entities, when all reasonable collection procedures did not result in payments. Failure to implement reasonable collection efforts precludes the department from discharging uncollectable receivables. The department is required by SAM to review the receivables no less than quarterly to identify receivables for discharge. The table below shows that Atascadero, Coalinga, Metropolitan, Napa, and Patton State Hospitals; Vacaville Psychiatric Program; and Headquarters still have outstanding items older than three years which might have been discharged if reasonable. (See exception 6, Appendix B, for occurrences of this issue for each location.)

<i>Location</i>	<i>Total Receivables</i>	<i>Age</i>		
		<i>0-60 Days</i>	<i>61 Days to 3 Years</i>	<i>More Than 3 Years</i>
Atascadero State Hospital	\$ 170,734	\$ 127,733	\$ 42,567	\$ 434
Coalinga State Hospital	107,147	40,583	56,761	9,803
Metropolitan State Hospital	165,596	86,791	73,315	5,490
Napa State Hospital	1,219,285	511,482	564,627	143,176
Patton State Hospital	268,848	190,040	66,990	11,818
Salinas Valley Psychiatric Program	53,526	11,418	42,108	0
Vacaville Psychiatric Program	62,707	48,550	7,900	6,257
Headquarters	197,338	50,129	125,291	21,918
Total	<u>\$ 2,245,181</u>	<u>\$ 1,066,726</u>	<u>\$ 979,559</u>	<u>\$ 198,897</u>

Government Code section 13940 states:

Any state agency or employee required to collect any state taxes, licenses, fees, or money owing to the state for any reason that is due and payable may be discharged by the board from accountability for the collection of taxes, licenses, fees, or money if the debt is uncollectible or the amount of the debt does not justify the cost of its collection.

Government Code section 13941 states:

The application for a discharge under this chapter shall be filed with the Controller. . . .

SAM 8776.6 states, in part:

If all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectable amounts due from private entities. Departments will review their accounts receivable no less than quarterly to identify receivables for discharge. If departments have identified receivables for discharge, departments will file an Application for Discharge from Accountability form, STD. 27, with the SCO, Division of Accounting and Reporting, no less than quarterly. . . .

Recommendation

The department's locations should strictly follow SAM collection rules and submit uncollectible amounts to SCO for discharge from accountability after all collection efforts have been performed.

Department's Response

The department responded that it will implement the recommendations.

**FINDING 4—
Inadequate separation
of duties**

Three locations (Atascadero State Hospital, and Vacaville and Salinas Valley Psychiatric Programs) did not maintain proper separation of duties with respect to their ORF function. A key element in a system of internal control is separation of duties. Our audit found that the three locations lacked proper separation of duties as indicated below:

- At Atascadero State Hospital, the cashier both receives and deposits remittances, and prepares checks.
- Vacaville Psychiatric Program did not have proper separation of duties as follows:
 - The Senior Accounting Officer can perform three out of the seven incompatible functions listed in SAM section 8080. The Officer operates a check-signing machine and has access to check stock.
 - The Executive Director and Assistant Executive Director can perform three of seven incompatible functions listed in SAM section 8080.
 - The Staff Services Analyst can perform two of the seven incompatible functions listed in SAM section 8080.
- At Salinas Valley Psychiatric Program, separation of duties is inadequate. One individual performs five of the seven duties outlined by SAM section 8080.

SAM section 8080 (Separation of Duties) states:

No one person will perform more than one of the following seven types of duties:

1. Receiving and depositing remittances;
2. Authorizing disbursements;
3. Preparing checks;
4. Operating a check-signing machine;
5. Comparing machine-signed checks with authorizations and supporting documents;
6. Reconciling bank accounts and posting the General Ledger or any subsidiary ledger affected by cash transactions;
7. Initiating or preparing invoices.

Recommendation

The department's locations should fill vacant positions and cross-train staff members outside of the accounting unit, if necessary, in order to maintain proper separation of duties.

Department's Response

The department responded that it will implement the recommendations.

**FINDING 5—
No evidence of proper
approval for ORF
check requests or
adequate for ORF
checks**

Six locations (Metropolitan, Napa, and Patton State Hospitals; Salinas Valley and Vacaville Psychiatric Programs; and Headquarters) did not demonstrate proper approval of ORF check requests. (See exception 7, Appendix B, and exception 1, Appendix C, for occurrences of this issue in each location.)

In addition, two locations (Napa and Patton State Hospitals) did not have the required two signatures on checks exceeding the \$15,000 threshold. (See exception 7, Appendix C, for occurrences of this issued in each location.)

SAM section 8422.1, Invoices and Vouchers, states:

... [an] agency will determine that authority exists to obtain the goods and services.

SAM section 8041, Checks, states:

Any check drawn in excess of \$15,000 will require two authorized signatures unless it is payable to

Recommendation

The department's locations should ensure that ORF request forms are properly authorized and that there are two authorized signatures for checks exceeding \$15,000.

Department's Response

The department responded that it will implement the recommendations.

**FINDING 6—
Claims not scheduled in
timely manner, and
claims denied by SCO not
resolved in a timely
manner for prompt
reimbursement of the
ORF**

Six locations (Atascadero, Coalinga, Metropolitan, and Napa State Hospitals; Salinas Valley Psychiatric Program; and Headquarters) did not schedule claims to replenish the ORF in a timely manner. (See exception 8, Appendix B, and exception 2, Appendix C, for occurrences of this issue for each location.)

It took a long time for some locations to schedule a claim. For example:

- Napa State Hospital did not process claim schedules to reimburse the ORF in a timely manner. Of 35 samples selected, 13 (37%), with an aggregate amount of \$96,160, were not processed in a timely manner to replenish the revolving fund because the 13 samples tested have not been submitted to SCO for processing. In addition, for the sample transactions selected, the average amount of time taken to schedule claims was 564 days.
- Metropolitan State Hospital did not schedule claims for timely reimbursement. Of the 36 sampled transactions that could have been scheduled for reimbursement, 32 (89%), with an aggregate total of \$47,556, were either not scheduled or not scheduled in a timely manner for claiming reimbursement from the SCO. The average amount of time taken to schedule claims for the selected sample was 203.5 days.

Three locations (Coalinga and Napa State Hospitals and Headquarters) did not resolve denied claims in a timely manner in order to quickly replenish the ORF. (See exception 10, Appendix B, for occurrences of this issue at each location.)

The locations did not have a system to track the outstanding claim denials and follow through to replenish the ORF in a timely manner. For example:

- At Napa State Hospital, 8 of 17 (\$4,118) outstanding travel advances in the sample were submitted to the SCO but were denied for various reasons. Napa State Hospital cannot locate the original TECs in order to resolve the denials.

In addition, our sample of the transactions showed that eight more outstanding transactions totaling \$3,111 were submitted to the SCO and denied as well. The eight sampled transactions were attached to an STD. 27A form (Claim for Reimbursement) as supporting documentation. In accordance with SAM section 8072, STD. 27A forms are used by agencies to replenish their ORF cash shortages.

Furthermore, while reviewing STD. 27A forms, we discovered 48 additional transactions, totaling \$10,446, that were previously denied by the SCO. In total, there were 56 transactions, dated from 1996 through 2006, totaling \$13,563, that had been denied by SCO. These 56 transactions were not resubmitted to the SCO in a timely manner with appropriate documentation to substantiate the expenses. Napa State Hospital stated on the STD. 27A form that, as a result of not acting promptly, the hospital had either lost or misplaced all paperwork. The hospital further stated that the employees do not owe

the State money; it is Napa State Hospital that failed to correct the original error in a timely manner. Finally, Napa State Hospital has not submitted the STD. 27A forms to the SCO for replenishment.

- As of December 31, 2009, Headquarters had 17 items related to American Express payments that had not been reimbursed to the ORF. The American Express payments are generally related to hotel costs, airline ticket charges, and car rentals incurred by traveling employees. The 17 items were dated from 2006 to 2009, in the total amount of \$37,413. Some of the items were denied by SCO and should have been resubmitted; some were due to employees who failed to refuel rental cars prior to return or to employees who requested extra large vehicles; some were not explained as to the reason for remaining outstanding. During the audit, Headquarters could not produce a detailed schedule that supported the outstanding amount on the D06 for American Express items and that tracked the dollar amount, the reason for amounts outstanding, and the parties responsible for outstanding amounts.
- Transit reconciliation at Headquarters was not performed in a timely manner to replenish the ORF. Generally, it takes two to three months to schedule a claim for reimbursement from the ORF check date, but the process was delayed to four to five months.

In addition, we observed that the locations have little incentive to schedule claims with the SCO or to resolve denied claims quickly to reimburse ORF promptly, as they maintain significant excess cash in the ORF. We obtained the lowest ORF month-end balances from bank reconciliations for the period between June 2009 and December 2009 and compared them with the ORF appropriation amounts. We found that seven of eight locations kept more than 30% excess cash in the ORF. Therefore, by maintaining excess cash in the ORF, the locations did not need to be concerned with potential bank overdrafts and therefore did not schedule claims with SCO in a timely manner or resolve denied claims in an expeditious manner. This practice jeopardizes the locations' internal control in administering the ORF. The longer the locations delay scheduling claims or resolving denied claims, the higher the chance the location may lose the original documents and may not be able to claim funds to reimburse the ORF.

<i>Location</i>	<i>ORF Appropriation</i>	<i>Lowest ORF Book Balance</i>	<i>Date</i>	<i>Excess Cash</i>	<i>Percentage of Excess Cash</i>
Atascadero State Hospital	\$3,500,000	\$2,720,221	08/31/2009	\$2,720,221	78%
Coalinga State Hospital	1,500,000	1,159,787	11/30/2009	1,159,787	77%
Metropolitan State Hospital	600,000	297,142	06/30/2009	297,142	50%
Napa State Hospital	1,650,000	289,657	12/31/2009	289,657	18%
Patton State Hospital	1,500,000	1,174,175	12/31/2009	1,174,175	78%
Salinas Valley Psychiatric Program	200,000	103,946	08/31/2009	103,946	52%
Vacaville Psychiatric Program	200,000	137,243	12/31/2009	137,243	69%
Headquarters	1,857,600	1,059,420	08/31/2009	1,059,420	57%

SAM section 8047 (Overdrafts) states that scheduling claims for reimbursements of ORF promptly is one of the principles to help prevent overdrafts.

Recommendation

The department's locations should:

- Ensure that claims are scheduled promptly for reimbursement of the ORF through the SCO.
- Promptly resolve claim denials and reschedule claims through the SCO.

Department's Response

The department responded that it will implement the recommendations.

**FINDING 7—
Supporting documents
not retained.**

Seven locations (Atascadero, Metropolitan, Napa, and Patton State Hospitals; Salinas Valley and Vacaville Psychiatric Programs; and Headquarters) did not provide requested documents such as ORF check requests, collection letters, negotiation plans, and exit clearing forms. We cannot verify if proper authorization, collection, negotiation action, or exit clearing was performed due to a lack of documentation. (See exception 9, Appendix B, and exception 3, Appendix C, for occurrences of this issue at each location.)

For example:

- Napa State Hospital is planning to submit a STD. 27A (Claim for Reimbursement) form for 8 of the 17 sampled transactions, totaling \$3,111. These transactions are old, and hospital personnel stated that all paperwork has been lost or destroyed and they have no way to determine if the employees owe money to the State.
- Napa State Hospital lacked supporting documentation for 25 of 50 samples selected. Therefore, we could not verify whether the payments were appropriate.
- Headquarters did not adequately maintain ORF records. During the audit, department personnel had difficulty gathering requested documents to support the transactions; lost documents were common. ORF check requests, collection letters, and periodic statements were not retained within the ORF folders.

The Department of General Service General Records Retention Guidelines state that the receivable source documents (e.g., invoices) and documents of collection efforts should be retained for at least four years after the receivable has been paid.

Recommendation

The department's locations should ensure that they have an adequate process for recordkeeping, and retain accounts receivable source documents and documentation of collection efforts for at least four years after the receivable has been paid.

Department's Response

The department responded that it will implement the recommendations.

**FINDING 8—
ORF used for
impermissible payments**

Department locations improperly used ORF for payments in violation of SAM guidelines as indicated below:

- At five locations (Coalinga and Metropolitan State Hospitals; Salinas Valley and Vacaville Psychiatric Programs; and Headquarters), vendor payments should have been made via a warrant instead of ORF check. The invoices for the payments did not meet the criteria in SAM for payments out of the ORF since issuance of an SCO warrant could have met the vendor payment due date. (See exception 12, Appendix B, and exception 4, Appendix C, for occurrences of this issue for each location.)
- The ORF was used to pay for patient reward items such as pizza and ice cream during group activities under the “By Choice” incentive program. The By Choice incentive program was mandated by U.S. court order to promote positive behavior of hospital patients. However, four locations (Atascadero, Coalinga, Metropolitan, and Napa State Hospitals) did not provide evidence of authority and internal policy allowing the use of the ORF for these food purchases from outside vendors under the By Choice incentive program. (See exception 13, Appendix B, and exception 5, Appendix C.)
- At four locations (Coalinga, Metropolitan, and Napa State Hospitals and Headquarters), the ORF was used to pay for questionable transactions such as gaming equipment, furniture, hardware supplies, and TV equipment and headquarters. (See exception 14, Appendix B, and exception 6, Appendix C, for occurrences related to this issue.)

For example:

- Our sample testing disclosed that headquarters used the ORF to pay for furniture purchases that were not properly authorized by Department of General Services. The total charge for the furniture was \$168,612. Headquarters made the first payment to the vendor on December 14, 1998, in the amount of \$140,000 via the ORF. The California Multiple Awards Schedules maximum order limit was \$100,000. Headquarters subsequently issued a revolving fund check in the amount of \$28,612 on September 7, 1999. The reimbursement claim to replenish the ORF was denied by the SCO on November 4, 1999, for exceeding the delegated amount limitation. Discharge of the \$28,612 was denied by the Board of Control in 2001. The Department of Mental Health further complicated the ORF reimbursement by attempting to replenish the ORF in the amount of \$18,331 in 2004 by using special revenue which was collected from conference training fees.
- Napa State Hospital used the ORF to purchase gaming equipment (Wii®), hardware supplies, pantry supplies, TV equipment, TV subscription, and repair services (7 of 50 payments totaling \$13,064).
- Coalinga State Hospital improperly used the ORF for 4 of 39 sampled transactions (10%), totaling \$4,679. The ORF was used to purchase hardware, movie passes, pantry supplies, and for payment of overtime meal tickets.

- Two locations (Atascadero and Napa State Hospitals) paid vendors via the ORF for services without a valid contract or outside of the contracted scope of services. (See exception 11, Appendix B, for occurrences of this issue for each location.)
- The ORF was used for payments of salary advances related to late wage dock beyond the maximum number allowed per calendar year. For many bargaining units of department employees, the maximum number of salary advances for “late dock” is four per calendar year. However, the department does not have a policy or procedure to limit the number of salary advances in accordance with applicable bargaining unit agreements.

Note: One of the sampled items was previously identified by the Department of Finance (DOF) in an audit and deemed inappropriate. Metropolitan State Hospital purchased Target and/or Wal-Mart gift cards that were used by individuals who did not have Cal-Cards. The gift cards were used to purchase items for the By Choice program. Staff members used this process so they would not have to prepare purchase order forms. The Cal-Card invoice also showed purchases from Smart & Final that were used for holiday activities for patients at Metropolitan State Hospital. Metropolitan State Hospital is planning to schedule this transaction for reimbursement from the SCO.

SAM section 8110 (Permissible Uses) states:

Revolving funds drawn under the provisions of Government Code Section 16400 may be used only, in accordance with law, for payment of compensation earned, traveling expenses, traveling expense advances, or where immediate payment is otherwise necessary (Government Code Section 16401).

SAM section 8116.7 (Compliance) states that the gift of State funds is prohibited by the California Constitution.

Section 1.A1.1, Chapter 1, Volume 3 of the State Contracting Manual (Responsibility of Public Funds) reminds departmental personnel generally and buyers to avoid wasteful and impractical purchasing practices.

Section 2.A2.2 (Avoid Making a Gift of Public Funds) states:

In accordance with the California State Constitution, Article 16, section 6, any gift of public funds is strictly prohibited. All expenditures must support the department’s mission (function and purpose) and benefit the State to not be considered gifts of public funds. This includes any advance payments or pre-payments made to a contractor before work has been performed or to a supplier before all products have been received. . . . Departments may not procure personal items such as Kleenex, aspirin, glass wipes, and/or appliances that are not part of the department’s mission.

Section 4.09, Chapter 1, Volume I, of the State Contracting Manual (Approval and Commencement of Work) states:

The basic state policy is that no contractor should start work until receiving a copy of the formally approved contract. . . . Payment for services may not be made until the contract is approved by the DGS/OLS or, in the case of an exempt contract, until it is formally approved by the agency.”

Recommendation

The department’s locations should ensure that the ORF is used strictly in accordance with SAM guidelines. If exceptions are needed to accommodate the By Choice program, the department should apply for an exemption to SAM.

Department’s Response

The department responded that it will implement the recommendations.

**FINDING 9—
Deposits not made in a
timely manner**

One location (Salinas Valley Psychiatric Programs) did not always make bank deposits in a timely manner. Salinas Valley Psychiatric Program made deposits once a month. For the month of December, Salinas Valley Psychiatric Program made its deposit on December 31, 2009. One of the deposited checks was dated November 25, 2009.

SAM section 8032.1 requires:

Agencies that have safes, vaults, money chests, or other comparable storage that is adequate to safeguard cash will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first.

SAM 8032.1 further states that accumulated receipts of any amount will not remain undeposited for more than ten working days.

Recommendation

The department's locations should ensure that accumulated receipts of any amount will not remain undeposited for more than ten working days and will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first.

Department's Response

The department responded that it will implement the recommendations.

**OTHER
OBSERVATIONS**

The Department of Mental Health as a whole lacked communication and coordination for the ORF function. Integral components of internal control are information and communication. The ORF policies and procedures for all eight locations are not standardized. The eight locations create their own ORF policies and procedures. The procedures at one location differ from the procedures at another location. The locations do not share knowledge, training, and information. The practice at the department duplicates effort and complicates understanding of the processes for transferring employees. In addition, information within each location is not well communicated. For example, when employees were not supposed to request extra large vehicles or to return vehicles without filling up with gasoline, Headquarters did not communicate the message to employees. Instead, employees incurred extra charges for which they became personally liable in 2006, 2007, and 2008.

TECs at headquarters were paid without audit, which was the practice in 2008. Post-payment audits were performed when personnel were available. The TEC senior accounting officer position was vacant for six months. A stack of TECs was found around January 2010, waiting for post-payment audits and claim schedules. Some of these TECs dated back to 2008.

Appendix A— Outstanding ORF Receivables Aging Schedule

<i>Locations</i>	<i>Total Receivables</i>	<i>Age</i>			<i>Percentage by Age</i>		
		<i>0-60 Days</i>	<i>61 Days to 3 Years</i>	<i>More Than 3 Years</i>	<i>0-60 Days</i>	<i>61 Days to 3 Years</i>	<i>More Than 3 Years</i>
Atascadero State Hospital	\$ 170,734	\$ 127,733	\$ 42,567	\$ 434	74.81%	24.93%	0.25%
Coalinga State Hospital	107,147	40,583	56,761	9,803	37.88%	52.97%	9.15%
Metropolitan State Hospital	165,596	86,791	73,315	5,490	52.41%	44.27%	3.32%
Napa State Hospital	1,219,285	511,482	564,627	143,176	41.95%	46.31%	11.74%
Patton State Hospital	268,848	190,040	66,990	11,818	70.69%	24.92%	4.40%
Salinas Valley Psychiatric Program	53,526	11,418	42,108	0	21.33%	78.67%	0.00%
Vacaville Psychiatric Program	62,707	48,550	7,900	6,257	77.42%	12.60%	9.98%
Headquarters	<u>197,338</u>	<u>50,129</u>	<u>125,291</u>	<u>1,918</u>	25.40%	63.49%	11.11%
Total	<u>\$ 2,245,181</u>	<u>\$ 1,066,726</u>	<u>\$ 979,559</u>	<u>\$ 198,896</u>	47.51%	43.63%	8.86%

Appendix B— Summary of Exception from ORF Receivable Sample Review (D06-D02)

Exception	Description	Location *							
		ASH	CSH	MSH	NSH	PSH	SVPP	VPP	HQ
1	Periodic statement was not sent (travel only).			67%	64%				64%
2	Collection letter or overpayment notification letter not sent or not sent in a timely manner.	7%	66%	58%	24%	100%	38%	32%	53%
3	No analysis prepared to determine additional collection efforts made after three collection letters were not successful.		66%	100%	100%			100%	100%
4	Outstanding advance not deducted or not deducted in a timely manner from next payroll warrant during employment with department.		66%	50%	30%	91%			100%
5	Outstanding advance was not verified by ORF employee and or deducted from last payroll warrant during exit clearing.		66%	14%					21%
6	Discharge from accountability not performed.	20%		31%	22%			100%	75%
7	Proper approval of ORF check request not evidenced.			32%	20%			32%	32%
8	Claim schedule with SCO was not filed/not filed in timely manner to immediately replenish ORF.	25%	9.5%	89%	56%		50%		87%
9	Supporting documents not provided.	✓		✓	✓	✓		✓	✓
10	Claim cut by SCO was not resolved in a timely manner to replenish ORF.		9.5%		23%				33%
11	Services paid via ORF on dates were not covered by valid contract.	7%			11%				
12	Vendor payment should have been made via a warrant instead of ORF check.			8%					
13	There is no authority and/or internal policy allowing the use of ORF for patient rehabilitation and celebrations under the "By Choice" incentive program.			✓	✓				
14	ORF was used to pay for questionable transactions such as gaming equipment, furniture, hardware supplies, and TV equipment.			4%	11%				2%

* Legend: ASH=Atascadero State Hospital; CSH=Coalinga State Hospital; MSH=Metropolitan State Hospital; NSH=Napa State Hospital; PSH=Patton State Hospital; SVPP=Solano Valley Psychiatric Program; VPP=Vacaville Psychiatric Program; HQ=Headquarters

Appendix C— Summary of Exceptions from ORF Disbursement Sample (H06)

<i>Excep- tion</i>	<i>Description</i>	<i>Location *</i>							
		<i>ASH</i>	<i>CSH</i>	<i>MSH</i>	<i>NSH</i>	<i>PSH</i>	<i>SVPP</i>	<i>VPP</i>	<i>HQ</i>
1	Proper approval of ORF check request was not evidenced.			30%		4%	4%	30%	
2	Claim schedule with SCO was not filed or not timely filed to immediately replenish ORF.	18%	21%	15%	9%		45%		46%
3	Supporting documents were not provided.			✓	✓		✓		
4	Vendor payment should have been made via a warrant instead of ORF check.		10%				8%	7%	5%
5	There is no authority and internal policy allowing the use of ORF for patient rehabilitation and celebrations under the By Choice incentive program.	✓	✓	✓	✓				
6	ORF used to pay for questionable transactions such as gaming equipment, furniture, hardware supplies, and TV equipment.	10%			20%				
7	Two signatures on checks exceeding \$15,000 threshold were not in place.				29%	4%			
<p>* Legend: ASH=Atascadero State Hospital; CSH=Coalinga State Hospital; MSH=Metropolitan State Hospital; NSH=Napa State Hospital; PSH=Patton State Hospital; SVPP=Solano Valley Psychiatric Program; VPP=Vacaville Psychiatric Program; HQ=Headquarters</p>									

Appendix D— Written Policies and Procedures

	<i>Location</i> *							
	<i>ASH</i>	<i>CSH</i>	<i>MSH</i>	<i>NSH</i>	<i>PSH</i>	<i>SVPP</i>	<i>VPP</i>	<i>HQ</i>
Exit Clearing	Yes	Yes	Yes	No ⁴	Yes	Yes	No	No
Approval of ORF Requests	Yes	Yes	No ³	Limited	Yes	No ³	No	Yes
Check Preparation	Yes	Yes	No ³	Limited	Yes	Yes	Yes	No
Collection	Limited ¹	Yes	Limited ¹	No	Limited ¹	No ³	Limited ²	No
Deposit	Yes	Yes	No ³	No	Yes	No ³	Yes	No
Claim Schedule	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
* Legend: ASH=Atascadero State Hospital; CSH=Coalinga State Hospital; MSH=Metropolitan State Hospital; NSH=Napa State Hospital; PSH=Patton State Hospital; SVPP=Solano Valley Psychiatric Program; VPP=Vacaville Psychiatric Program; HQ=Headquarters								

¹ No procedures for compliance with SAM sections 8776.6 and 8776.7.

² No procedures on travel advance for compliance with SAM sections 8116.1, 8116.2, and 8116.3.

³ Referencing procedure to SAM/CALSTARS manual instead of establishing internal policies and procedures.

⁴ No exit clearing form in place requires accounting function acknowledgment of no outstanding ORF receivables.

**Attachment—
Department's Response to
Draft Audit Report**



1600 9th Street, Sacramento, CA 95814
(916) 654-2309

October 4, 2010

Cathleen Dinubilo, Audit Manager
State Agency Audits Bureau
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Ms. Dinubilo:

The California Department of Mental Health (CDMH) appreciates the work you and your staff performed during the audit of CDMH's revolving funds. CDMH agrees with the audit recommendations and appreciates the opportunity to comment to the draft report. Our response is enclosed.

CDMH looks forward to State Controller's Office follow-up audit in the future. If you require further information about this response, please contact me at (916) 651-3880.

Sincerely,

A handwritten signature in cursive script that reads "Vallery Walker".

VALLERY WALKER
Office of Internal Audits

Enclosure

cc: Stephen W. Mayberg, Director, DMH
Stan Bajorin, Chief Deputy Director, DMH
Mieko Epps, Asst. Deputy Director of Financial Services, DMH
Cindy Radavsky, Deputy Director of Long Term Care Services, DMH
Jean Barawed, Asst. Deputy Director of Long Term Care Services, DMH
Jon De Morales, Executive Director, ASH
Pam Ahlin, Acting Executive Director, CSH
Sharon Smith Nevins, Executive Director, MSH
Dolly Matteucci, Acting Executive Director, NSH
Carlos Luna, Executive Director, PSH
Victor Brewer, Executive Director, SVPP and VPP

**California Department of Mental Health's Response to the
State Controller's Office (SCO) Draft Report Entitled**

Administrative and Internal Accounting Controls Over the Office Revolving Fund

The audit of the California Department of Mental Health's (CDMH) Office Revolving Funds was conducted at its eight locations, including five state hospitals, two psychiatric programs, and Headquarters. For the purposes of this document, the acronyms below are used when referring to each location:

- Atascadero State Hospital (ASH)
- Coalinga State Hospital (CSH)
- Metropolitan State Hospital (MSH)
- Napa State Hospital (NSH)
- Patton State Hospital (PSH)
- Salinas Valley Psychiatric Program (SVPP)
- Vacaville Psychiatric Program (VPP)
- Headquarters (HQ)

Finding 1

Office Revolving Fund (ORF) Receivables not Collected According to State Administrative Manual (SAM) Guidelines.

Recommendation: Locations should:

- Review their ORF aging report on a monthly basis and ensure that outstanding amounts are cleared in a timely manner.
- Ensure that outstanding advances are collected within 60 days.
- Ensure that periodic statements are sent out in a timely manner to notify employees who have travel advances but who have not submitted a travel expense claim (TEC) to substantiate expenses.
- Develop a process to ensure that collection letters and overpayment notification letters are sent out in accordance with SAM sections 8776.6 and 8776.7.

- Develop a procedure to ensure that an analysis is prepared to determine what collection efforts will be utilized after the three collection letters are not successful in recovering the receivables.
- Develop a process to ensure that salary and travel advances are cleared within 30 days by a TEC and that advances not cleared within 30 days are deducted from an employee's next payroll warrant in accordance with applicable bargaining unit agreements.
- Direct Human Resources to ensure that any outstanding employee advances are cleared during the exit clearance process; and if not, to deduct the amount due from the final payroll warrant.

Response:

CDMH will implement the recommendations, where applicable. Specifically:

- Eight locations (ASH, CSH, MSH, NSH, PSH, SVPP, VPP, and HQ) will review their ORF aging report on a monthly basis and develop a process to ensure that outstanding amounts are cleared in a timely manner.
- Eight locations (ASH, CSH, MSH, NSH, PSH, SVPP, VPP, and HQ) will develop a process to ensure that outstanding advances are collected within 60 days.
- Three locations (MSH, NSH, and HQ) will develop a process to ensure that periodic statements are sent out in a timely manner to notify employees who have travel advances but who have not submitted a travel expense claim (TEC) to substantiate expenses.
- Eight locations (ASH, CSH, MSH, NSH, PSH, SVPP, VPP, and HQ) will develop a process to ensure that collection letters and overpayment notification letters are sent out in accordance with SAM sections 8776.6 and 8776.7.
- Five locations (CSH, MSH, NSH, VPP, and HQ) will develop a procedure to ensure that an analysis is prepared to determine what collection efforts will be utilized after the three collection letters are not successful in recovering the receivables.

- Five locations (CSH, MSH, NSH, PSH and HQ) will develop a process to ensure that salary and travel advances are cleared within 30 days and advances not cleared within 30 days are deducted from an employee's next payroll warrant in accordance with applicable bargaining unit agreements.
- Four locations (CSH, MSH, PSH, and HQ) will direct Human Resources to develop a process to ensure that any outstanding employee advances are cleared during the exit clearance process; and if not, to deduct the amount due from the final payroll warrant.

Finding 2

Written Policies and Procedures for the ORF not in Place.

Recommendation: The locations should:

- Develop or update their policies and procedures manual for ORF to ensure that all SAM revolving fund and collection regulations are specified and enforced, as well as provide appropriate training to staff on an ongoing basis.
- Share procedures as appropriate.

Response: CDMH will implement the recommendations. CSH's policies and procedures will be shared with the other seven locations (ASH, MSH, NSH, PSH, SVPP, VPP, and HQ). These policies and procedures will be used as a model for the other locations to develop or update their policies and procedures manual for ORF to ensure that all SAM revolving fund and collection regulations are specified and enforced. In addition, appropriate training will be provided to staff on an ongoing basis.

Finding 3

Discharge from Accountability not Filed.

Recommendation: Locations should strictly follow SAM collection rules and submit uncollectible amounts to SCO for discharge from accountability after all collection efforts have been performed.

Response: CDMH will implement the recommendation. Five locations (ASH, MSH, NSH, VPP, and HQ) will follow SAM collection rules and submit uncollectible amounts to SCO for discharge

from accountability after all collection efforts have been performed. If necessary, locations will contact SCO for guidance in resolving issues pertaining to discharge of accountability.

Finding 4
Inadequate Separation of Duties

Recommendation: Locations should fill vacant positions and cross train staff members outside the accounting unit, if necessary, in order to maintain proper separation of duties.

Response: CDMH will implement the recommendation. Three locations (ASH, SVPP, and VPP) will cross train staff members outside the accounting unit, if necessary, in order to maintain proper separation of duties.

Finding 5
No Evidence of Proper Approval for ORF Check Requests or Adequate for ORF Checks.

Recommendation: Locations should ensure that ORF request forms are properly authorized and that there are two authorized signatures for checks exceeding \$15,000.

Response: CDMH will implement the recommendation. Six locations (MSH, NSH, PSH, SVPP, VPP, and HQ) will develop a process to ensure that ORF request forms are properly authorized. In addition, two locations (NSH, and PSH) will develop a process to ensure that there are two authorized signatures for checks exceeding \$15,000.

Finding 6
Claims not Scheduled in Timely Manner, and Claims Denied by SCO not Resolved in a Timely Manner for Prompt Reimbursement of the ORF.

Recommendation: Locations should:

- Ensure that claims are scheduled promptly for reimbursement of the ORF through the SCO.

- Promptly resolve claim denials and reschedule claims through the SCO.

Response: CDMH will implement the recommendations. Six locations (ASH, CSH, MSH, NSH, SVPP, and HQ) will develop a process to ensure that claims are scheduled promptly for reimbursement of the ORF through the SCO, and three locations (CSH, NSH, and HQ) will work to promptly resolve claim denials and reschedule claims through the SCO.

Finding 7
Supporting Documents not Retained.

Recommendation: Locations should ensure that they have an adequate process for recordkeeping, and retain accounts receivable source documents and documentation of collection efforts for at least four years after the receivable has been paid.

Response: CDMH will implement the recommendation. Seven locations (ASH, MSH, NSH, PSH, SVPP, VPP, and HQ) will develop a process to ensure that they have an adequate process for recordkeeping, and retain accounts receivable source documents and documentation of collection efforts for at least four years after the receivable has been paid.

Finding 8
ORF Used for Impermissible Payments.

Recommendation: Locations should ensure that the ORF is used strictly in accordance with SAM guidelines. If exceptions are needed to accommodate the By Choice program, the department should apply for an exemption to SAM.

Response: CDMH will implement the recommendation. Seven locations (ASH, CSH, MSH, NSH, SVPP, VPP, and HQ) will develop a process to ensure that the ORF is used strictly in accordance with SAM guidelines. CDMH appreciates the identification of impermissible payments due to a lack of policies and procedures.

Finding 9

Deposits not Made in a Timely Manner.

Recommendation: Locations should ensure that accumulated receipts of any amount will not remain undeposited for more than ten working days and will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first.

Response: CDMH will implement the recommendation. Two locations (SVPP and VPP) will develop a process to ensure that accumulated receipts of any amount will not remain undeposited for more than ten working days and will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>