



County of Riverside

INTERNAL AUDITOR'S REPORT

Department of Mental Health

February 16, 2006

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

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



**OFFICE OF THE
COUNTY AUDITOR-CONTROLLER**

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802



Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Ivan Chand, CGFM
ASSISTANT AUDITOR-
CONTROLLER

February 16, 2006

Jerry Wengerd, Director
Department of Mental Health
4095 County Circle Drive
Riverside, CA 92503

Subject: Internal Auditor's Report # 2006-002 – Department of Mental Health

Dear Mr. Wengerd:

We have completed an audit of the Department of Mental Health. We conducted the audit during the period August through November 2005, for operations of July 1, 2003 through June 30, 2005.

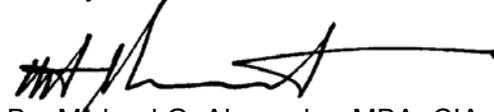
Our purpose was twofold: to meet the requirements of Board of Supervisors Resolution 83-338, paragraph III.A.4, which requires an audit of revolving funds and capital assets whenever there is a new director; and, to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's revolving fund and capital assets processes and accounting procedures.

We conducted our audit in accordance with the auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusions.

Based upon the results of our audit, we determined the Department of Mental Health had an adequate system of controls over the revolving funds; however, the controls over capital assets accounting processes were inadequate. In addition, we believe the revolving funds and capital assets were transferred in their entirety to the new director. Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

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

Robert E. Byrd, CGFM
County Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", with a long horizontal stroke extending to the right.

By: Michael G. Alexander, MBA, CIA
Chief Internal Auditor

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury

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Executive Summary

Overview The Riverside County Department of Mental Health provides mental health treatment and services to residents throughout the County of Riverside. It provides inpatient and outpatient care, emergency treatment services, treatment to jail inmates and treatment for drug and alcohol abuse. The Department's Public Guardian serves severely mentally disabled adults and older adults, children at risk of mental disability and individuals on conservatorship that enable them to achieve and maintain their optimal level of healthy personal and social functioning.

This audit is in compliance with Board of Supervisors Resolution 83-338, paragraph III.A.4. This requires an audit of revolving funds and capital assets whenever there is a new director. John Ryan retired as the director of the department and Jerry Wengerd was appointed by the Board of Supervisors as the new director effective May 12, 2005.

Overall Objective Our primary audit objective was to determine the existence and adequacy of internal controls over the department's revolving funds and capital assets processes and accounting procedures and to verify that the revolving funds and capital assets had been transferred in their entirety from the former director to the new director.

Overall Conclusion Based upon the results of our audit, we determined the Department of Mental Health has effective internal controls in place to ensure revolving funds were appropriately recorded and safeguarded from loss; however, the controls over capital assets were inadequate. In addition, we believe the revolving funds and capital assets were transferred to the new director in their entirety.

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

Objectives

To determine:

- whether internal controls were in place to ensure the department's capital assets and revolving funds were appropriately recorded and safeguarded from loss; and
- whether the capital assets and revolving funds were transferred in their entirety from the former director to the new director on May 22, 2005.

Methodology

To accomplish our objectives, we:

- conducted interviews and performed walk-throughs with department personnel;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- completed narratives of the revolving funds and capital assets processes;
- performed a risk assessment of the capital assets and revolving funds functions and procedures;
- conducted operational reviews and observations;
- reviewed the department's capital assets and revolving funds processes; and,
- performed detailed testing of the capital assets and revolving funds accounting processes and transactions.

Results

Transfer of Accountability

On May 12, 2005, a new director of the Department of Mental Health took office. Whenever there is a change in the custodian of capital assets or revolving funds, the former custodian is required to transfer the accountability for the capital assets or revolving funds to the new custodian. The transfer of accountability is accomplished by submitting a Capital Asset Transfer, Standard Practice Manual (SPM) Form AM-6 or a Revolving Fund Request Order and Change, SPM Form AR-1 to the Auditor-Controller's Office. In addition, when there is a change of directors, SPM No. 912 Transfer of Accountability requires an Inventory of County Property for Capital Assets, SPM Form AM-1 be submitted to the Auditor-Controller's Office to document the transfer of accountability of the capital asset inventory from the former officer to the incoming officer.

Finding 1

The Department did not transfer accountability for the capital assets or revolving funds upon the change in custodians.

The Capital Asset Transfer, SPM Form AM-6 transferring the accountability for the capital asset inventory from the former director to the new director was not filed at the time the new director took office.

In addition, the Inventory of County Property for Fixed Assets, Standard Practice Manual (SPM) Form AM-1 as required by SPM No. 912, Transfer of Accountability, was not filed with the Auditor-Controller's Office at the time of the change in directors. The new director signed the June 30, 2005, inventory certification, taking responsibility for the department's capital assets at that time but the accountability for the assets was never officially transferred by the former director.

SPM No. III-E-1-2.1, defines the custodian of a revolving fund as an officer or person designated by the officer. When the new director took office on May 12, 2005, the AR-1, Revolving Fund Request Order and Change Form, was not filed with the Auditor-Controller's Office to request the custodian name change to the new director. In addition, the Public Guardian's revolving fund had listed a former employee as the custodian. The AR-1 forms changing the names on the revolving funds to the new director were not submitted to the Auditor-Controller's Office until September 2005.

Recommendation 1 To prevent these problems from happening in the future, the Department should write policies and procedures to follow when there is a change in custodians of the capital assets and/or revolving funds.

Management's Reply Concur. The Department is currently drafting policies and procedures to follow when there is a change in custodian of the capital assets and/or revolving fund in accordance with SPM Policy Number 912 Transfer of Accountability.

Estimated Date of Corrective Action: February 2006

Results

Capital Assets

As of June 30, 2005, the Department reported over 280 assets valued at over \$6.7 million on the annual asset inventory certification submitted to the Auditor-Controller. The assets included computers, copiers and vehicles.

The management staff of each department or agency within the County of Riverside is required to account for County property in his/her possession or charge. This responsibility should include performance of the annual inventory and establishment of controls over the acquiring, monitoring, and disposal of capital assets.

Finding 2

During our testing, we found that overall the Department had sound policies and procedures for purchasing and safeguarding capital assets; however, the controls over the recording and monitoring of capital assets were weak.

There had been some confusion concerning how capital asset transactions are recorded in the County's accounting software (OASIS). Department staff believed the Auditor-Controller's Office (ACO) made the necessary entries to OASIS when the Department submitted the Asset Management forms to the ACO. OASIS accounting manuals and training instruct the departments to complete the Capital Assets Form: Acquisition, Betterment and Modifications (AM-2) and enter information online. As a result of this misunderstanding, the asset listing in OASIS was inaccurate.

SPM III-E-2-1.1, Section IV, Paragraph H and ICH Chapter 7, Section 1 require an annual inventory of capital assets to support the sworn certification submitted to the ACO for all capital assets in the possession of the department on June 30 of each fiscal year. Because the asset listings were not accurate, the capital asset listings certified by the former director in prior years were incorrect.

SPM No. III-2-1.1, Section IV, paragraph G and the Auditor-Controller's Internal Control Handbook (ICH) Chapter 7, Section 2 states that all capital asset transactions must be promptly reported to the Auditor-Controller. The appropriate forms were not submitted to the ACO in a timely manner so the new director approved asset management forms for asset transactions that took place under the former director.

At June 30, 2005, the asset listing was overstated by \$601,000. Acquisitions, disposals, and transfers were not recorded in the OASIS

asset listing as the transactions occurred. Six of the unrecorded additions totaling \$111,000 dated back to 1998.

Disposed assets remaining on asset list	\$1,046,000
Transferred assets remaining on asset list	96,000
Acquisitions not recorded on asset list	<u>541,000</u>
Net overstatement at June 30, 2005	<u>\$ 601,000</u>

Corrective Action During August and September 2005, the Department performed a complete reconciliation of the asset listing, filed the appropriate forms with the ACO and made the required adjustments in OASIS.

Recommendation 2 Asset listings submitted with the annual asset inventory certification should be reconciled to the annual capital assets physical inventory. Asset transactions should be entered into the OASIS Asset Management Module as they occur and the appropriate Asset Management forms filed with the ACO as required by County policies.

Management's Reply Concur. As noted in the Draft report, during August and September 2005, the Department performed a complete reconciliation of the asset listing, filed the appropriate forms with the ACO and made the required adjustments in OASIS.

Estimated Date of Corrective Action: September 2005

Auditor's Comment Auditor verified the submittal and approval of the appropriate forms with the ACO effective October 12, 2005.

Results

Revolving Funds

The Department has two revolving funds, each with a \$25,000 authorized balance. One fund is for the Administration Division and the other is for the Public Guardian.

The Administration's revolving fund is allocated to an imprest checking account, a petty cash fund and two change funds. The checking account and petty cash fund are used primarily for client expenses that are either small in amount or the need is immediate. The change funds are used to make change and are maintained at a constant amount.

The Public Guardian's revolving fund is deposited in a checking account and is used primarily for advances to conservatees to cover essential expenses. The amounts are repaid when the conservatees' funds become available.

Finding 3

Overall, the department had strong internal controls in place for the Administration revolving fund which includes an effective system of review, authorization, monitoring and reconciliation. Replenishments were requested and expenditures recorded in a timely manner. However; there were weaknesses in the Public Guardian's internal controls.

The Public Guardian's controls over the revolving fund were weak. SPM No. 104, paragraph B and the ICH Chapter 2, Section 3 require the key elements of internal controls to be established and maintained. The elements include segregations of duties; authorization and approval; and, review and reconciliation.

SPM No. 104, paragraph B(1) and the ICH Chapter 2, Section 3.c. require separation of duties; however, the Accountant II wrote checks, prepared the fund reconciliations, signed checks and prepared the deposits when the conservatees repaid their advances.

The Public Guardian's revolving fund had not been replenished nor interest transferred to the General Fund in several years. SPM III-E-2.1, Paragraph D.1.a. and the ICH Chapter 2, Section 3.a. requires the fund to be maintained at the assigned amount. During the fiscal year 2004-05, the fund was reconciled three times. ICH, Chapter 2, Section 2.h.(6) require funds in bank accounts to be reconciled monthly.

At June 30, 2005, there was a total of \$145 in expenses that had not been reimbursed or recorded as expenses by the Department and \$271 in interest that had not been transferred to the General Fund. Two of the expenses dated back to September 2003 and there was no indication that interest had ever been transferred to the General Fund.

A check was issued from the Public Guardian revolving fund that did not comply with the Department's policy. The check was for \$5,275, which exceeded the \$4,999.99 limit stipulated on the form. In addition, the Request for Payment had no approval other than the individual making the request.

Corrective Action In August 2005, the Public Guardian addressed some of the internal control problems by changing checking accounts. The new checking account requires two signatures for amounts over \$5,000 and the Accountant II is no longer authorized to sign checks.

Recommendation 3.1 We realize the Public Guardian has a small accounting staff making separation of duties a challenge; however, the fund reconciliations should be prepared by someone other than the person performing the accounting processing. If this is not possible due to staffing constraints, the reconciliation should be reviewed and approved by a supervisor.

Recommendation 3.2 Accounting revolving fund should be reconciled monthly. Replenishments should be requested and interest earned transferred to the General Fund on a quarterly, if not monthly basis.

Recommendation 3.3 Check requests should not be processed without proper approval.

Management's Reply Concur. The Department currently has policies and procedures in place that address the deficiency identified however, these policies and procedures were not followed. Training has been provided to address this issue.

Estimated Date of Corrective Action: January 2006



MEMORANDUM

January 17, 2006

TO: Auditor-Controller
Audits-and Specialized Accounting Division

FROM: Jerry Wengerd, Director

SUBJECT: Reply to Draft Audit Report

Recommendation Number 1 :

The Department should write policies and procedures to follow when there is a change of custodians of the capital assets and/or revolving funds.

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

 X Concur Disagree

b. **Comments:** The Department is currently drafting policies and procedures to follow when there is a change in custodian of the capital assets and/or revolving fund in accordance with SPM Policy Number 912 Transfer of Accountability.

c. **Actual/estimated Date of Corrective Action:** February 2006

d. **Estimated cost to implement recommendation (If material)**

\$ 0

Recommendation Number 2 :

Asset listings submitted with the annual asset inventory certification should be reconciled to the annual capital assets physical inventory. Asset transactions should be entered into the OASIS Asset Management Module as they occur and the appropriate Asset Management forms filed with the ACO as required by County policies.

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

 X Concur Disagree

b. **Comments:** As noted in the Draft report, during August and September 2005, the Department performed a complete reconciliation of the asset listing, filed the appropriate forms with the ACO and made the required adjustments in OASIS.

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Recommendation Number 3.3 :

Check requests should not be processed without proper approval.

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

 X Concur Disagree

b. **Comments:** The Department currently has policies and procedures in place that address the deficiency identified however, these policies and procedures were not followed. Training has been provided to address this issue.

c. **Actual/estimated Date of Corrective Action:** January 2006

d. **Estimated cost to implement recommendation (If material)**

\$ 0

cc: Dan Martinez, Executive Office
Ted Kubota, Assistant Director
Maria Mabey, Administrative Manager II
Joe Zamora, Principal Accountant