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March 6, 2007

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

Subject: Internal Auditor's Report #2007-315 Department of Mental Health – Follow-up
Audit

Dear Mr. Wengerd:

We have completed a follow-up Audit of the Department of Mental Health. Our audit was limited to reviewing actions taken, as of October 31, 2006, to implement the recommendations made in our original audit reports #2005-012 dated August 1, 2005 and #2006-002 dated Feb 16, 2006. Additionally, we gathered information on retail credit card accounts used by the Department of Mental Health as part of the Countywide Credit Card audit. Our conclusions on internal controls associated with the Department of Mental Health's use of credit cards will be communicated to you separately and included in Internal Auditor's Report #2007-005 – Countywide Credit Card Audit.

We conducted our audit in accordance with 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 our work provides a reasonable basis for the conclusions reached.

The original audit contained six recommendations, all of which required implementation and therefore, were reviewed as part of this audit. For an in-depth understanding of the original audit, please refer to Internal Auditor's Reports #2005-012 and #2006-002.

Management fully implemented five and partially implemented one of the recommendations to correct the findings noted in Internal Auditor's Reports #2005-012 and #2006-002. The following is a summary of the status of the findings and recommendations identified in the original audit reports:

INTERNAL AUDITOR'S REPORT #2005-012

Payment and Revenue Receipts

Finding 1: Cash receipts from the Institutes for Mental Diseases and youth substance abuse events were not immediately restrictively endorsed or deposited on a daily basis.

Recommendation 1: Checks and money orders should be restrictively endorsed immediately upon receipt and daily deposits should be made.

Current Status: Fully Implemented

The Department of Mental Health Institutes of Mental Diseases (IMD) and Youth Substance Abuse Prevention (YSAP) facilities restrictively endorsed checks and money orders immediately upon receipt and made daily deposits. During our unannounced visits to the Institutes of Mental Diseases (IMD) and Youth Substance Abuse Prevention (YSAP) facilities, we observed the cash receipt and deposit procedures and concluded that checks and money orders were restrictively endorsed immediately upon receipt. Additionally, we noted that daily deposits were prepared, reviewed, approved and deposited. We did observe, however, that there was a lack of segregation of duties for the receipt and deposit activity at the YSAP facility since one individual had complete control over the function.

The Auditor-Controller's Standard Practice Manual (SPM) Policy Number 104, dated March 25, 2002, procedure B1 states "Segregation of Duties: Duties are divided or segregated so that no one person has complete control over a key function or activity."

INTERNAL AUDITOR'S REPORT #2006-002

Transfer of Accountability

Finding 1: The Department did not transfer accountability for 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.

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.

Current Status: Fully Implemented.

The Department of Mental Health established a written policy, to be followed when there is a change in custodians of the capital assets and revolving funds. The policy is in accordance with the Auditor-Controller's Standard Practice Manual (SPM).

Capital Assets

Finding 2: The Department did not ensure that capital asset acquisitions, disposals, or transfers were recorded in the PeopleSoft Asset Management Module and that the listing was reconciled with the results of the annual capital asset physical inventory.

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 PeopleSoft Asset Management Module as they occur and the appropriate Asset Management forms filed with the Auditor-Controller as required by County policies.

Current Status: Fully Implemented.

The Department of Mental Health reconciled the asset listing with the annual capital assets physical inventory, entered asset transactions in the PeopleSoft Asset Management Module and filed the appropriate forms with the Auditor-Controller's Office. We obtained copies of the previous and current fiscal year capitalized asset listing, reviewed the annual capital asset physical inventory and verified the completeness and timeliness of required documentation submitted to the Auditor-Controller's Office.

Revolving Funds

Finding 3: The Public Guardian's revolving fund had not been replenished nor interest transferred to the General Fund in several years. There was no separation of duties over the accounting and reconciliation process, and check requests were not approved prior to payment.

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.

Current Status: Fully Implemented.

The Public Guardian has increased staff in the accounting function and now has a separation of duties over account processing and fund reconciliation. Our review of the monthly fund reconciliation reports for the period under review disclosed that the reviewer or approving authority is not the same person preparing the report.

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

Current Status: Partially Implemented.

The Public Guardian completed monthly reconciliations of the revolving fund for the period under review; however, we noted that the department was not replenishing the fund or transferring interest earned to the General Fund on a monthly or quarterly basis. The last request for replenishment of the fund and transfer of interest to the General Fund was in March 2006. The interest revenue is a minimal amount; however, the infrequent replenishment of the \$25,000 revolving fund indicates the fund is larger than necessary.

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

Current Status: Fully Implemented.

The Public Guardian followed the department's policy and procedure for check approvals. A review of the check requests for the twelve months under review indicated that all check requests had been approved by authorized personnel.

We appreciate the cooperation and assistance extended to us by the Department of Mental Health staff during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

ROBERT E. BYRD, CGFM
Auditor-Controller

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

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

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury