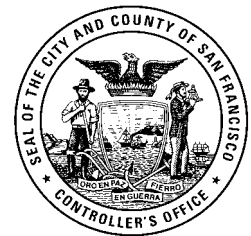


HEALTH COMMISSION:

A Review of Two Cash
Revolving Funds From
June 1, 2004, Through
August 31, 2005

FINANCIAL AUDITS



July 31, 2006
05026



CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

July 31, 2006

Audit Number 05026

Health Commission
101 Grove Street, Room 311
San Francisco, CA 94102

President and Members:

The Office of the Controller (Controller) presents its report concerning the reviews of the two cash revolving funds held by the Department of Public Health (department). The department maintains one revolving fund at its Central Office and uses the fund to establish various petty cash, change, emergency and stipend funds throughout its various divisions, programs, and research units. The department also maintains another revolving fund at Community Mental Health Services (Mental Health) and uses the fund for incentive payments to participants in its Socialization Program at Sunset Mental Health Services.

Reporting Period: June 1, 2004, through August 31, 2005

Authorized Amount:

Central Office:	\$43,000
Mental Health:	\$ 1,000

Results:

Although the department correctly used its revolving funds, the department did not properly administer and manage the cash revolving fund assets of both funds and exceeded the amounts authorized in the San Francisco Administrative Code and as recorded in the Controller's Financial Accounting and Management Information System. The department had an excess of \$4,080 in the Central Office fund and \$174 in the Mental Health fund.

The department's response is attached to this report. The Controller's Financial Audits will be working with the department to follow up on the status of the recommendations made in the report.

Respectfully submitted,

Original signed by:
Ed Harrington
Controller

INTRODUCTION

BACKGROUND

The Board of Supervisors of the City and County of San Francisco appropriated two revolving funds to the Department of Public Health (department). Under Section 10.154 of the San Francisco Administrative Code (Administrative Code), the department utilizes cash revolving accounts totaling \$43,000. The department's Central Office uses the funds to pay for minor office supplies, employee field expenses, client emergency funds and to establish change and stipend funds for its various divisions and research units. Under Section 10.154-1 of the Administrative Code, the department has a vocational rehabilitation revolving fund amount of \$1,000 used by Community Mental Health Services for incentive payments to participants of its Socialization Program at Sunset Mental Health Services.

SCOPE AND METHODOLOGY

The purpose of our reviews was to determine whether the department's cash revolving fund assets agreed with the amounts authorized in the Administrative Code and recorded in the Office of the Controller's (Controller) Financial Accounting and Management Information System (FAMIS). We also determined if the department properly administered and used the revolving funds in compliance with the Controller's Departmental Instruction No. 1052. In addition, we assessed whether the internal controls over the fund were adequate, and whether the revolving funds were sufficient to meet the department's operational needs.

To conduct the reviews, we examined the applicable provisions in the Administrative Code, the Controller's Departmental Instruction No. 1052, and the Purchaser's *Guide to Ordering Goods and Services*. We evaluated the department's procedures for approving, summarizing, and reporting revolving fund transactions. We tested, on a sample basis, the department's revolving fund transactions during the review period to determine whether the transactions were proper and valid. Finally, we conducted unannounced cash counts or confirmed balances at all cash locations.

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AUDIT RESULTS

CENTRAL OFFICE

Reporting Period: June 1, 2004, through August 31, 2005

Authorized Amount: \$43,000

THE DEPARTMENT'S REVOLVING FUND EXCEEDED ITS AUTHORIZED AMOUNT

As of August 31, 2005, the Department of Public Health (department) revolving fund balance of \$47,080.22 exceeded the amount authorized in the San Francisco Administrative Code (Administrative Code) and as recorded in the Office of the Controller's (Controller) Financial Accounting and Management Information System (FAMIS) by \$4,080.22. The excess included \$635.87 in overages in the department's various stipend and client emergency funds and a net excess of \$3,444.35 in its operating fund bank account.

The exhibit at the end of this section presents the amounts allocated by the department to various locations and for different uses as well as the results of our cash counts as of August 31, 2005.

The Department Did Not Properly Administer The Revolving Fund Bank Account

The net excess of \$3,444.35 in its revolving fund bank account occurred primarily because the department did not write off 104 checks totaling \$2,702.59 that had been outstanding for more than six months. The Controller's Departmental Instruction No. 1052, however, requires city departments to write off checks that have been issued and outstanding for more than six months and to deposit the amount of the checks to the department's non-operating revenue account. The custodian of the operating fund stated that there was not enough time to write off outstanding checks due to workload constraints.

By properly accounting for the long outstanding checks, however, the department is left with a net overage of \$741.76 in its revolving fund bank account. This occurred because the department understated its revolving fund bank account by \$258.24 due to reconciling errors, and overstated the bank account balance by \$1,000. The \$1,000 relates to the Heyman project discussed in the following section.

We also found that the department had not prepared its monthly bank reconciliations on a timely basis from May 2005 through August 2005. According to the fund custodian, the department did not provide a backup custodian while the custodian was on extended leave. The Controller's Departmental Instruction No. 1052 requires departments to prepare a monthly bank reconciliation of revolving fund accounts. Additionally, we found questionable items in the revolving fund's monthly bank reconciliations. We noted \$8,249.05 in bank service charges that had accumulated from February 2002 through August 2005 that had not been replenished. However, an accounting manager of the department stated that the bank charges were actually query fees to check the professional credentials of health care practitioners that are paid through automatic, electronic funds transfer from the bank account. In May 2006, the department appropriately requested reimbursement for the outstanding query fees and received payment by the Controller.

We also noted that the department's August 2005 outstanding check summary incorrectly included 50 checks as outstanding. Included in the 50 checks were 30 checks that the department prepared in August 2005 but did not release until September 2005. The remaining 20 checks were either cancelled or voided by the department or cashed by the payees and should not have been classified as outstanding.

The Department Did Not Adequately Manage Its Cash Revolving Accounts

During our cash count, we identified overages in certain stipend and client emergency funds totaling \$635.87. The largest overage was \$610, which represented \$600 cash transferred into a stipend fund from a non-revolving petty cash account and \$10 contributed by a fund custodian to resolve an immediate cash need. The department can avoid this unauthorized fund transfer to cover for cash shortages by periodically evaluating fund usage and increase fund allocations of more frequently used funds and decrease funds

at less active locations. If an immediate fund transfer between locations is required, the fund custodian should obtain advance approval to make the transfer.

Subsequent to our audit, the department informed us of an additional \$1,000 cash stipend fund that was not initially disclosed to us and was not included in our cash counts as of August 31, 2005. The department maintained \$1,000 in the Heyman Surveillance stipend fund of the AIDS Office. As of March 2006, the Heyman project was completed and the \$1,000 was returned to the department's operating fund.

In addition, the department's revolving fund usage may be insufficient at certain locations but excessive for others. We reviewed the fund replenishment requests of 11 locations and found that one stipend fund, the AIDS Office – Behavioral Surveillance stipend fund, requested 8 replenishments during both October 2004 and November 2004 and 12 replenishments during December 2004. The average monthly usage was \$2,336 of the allocated fund of \$3,000 for the 15-month review period. On the other hand, another stipend fund had a fund allocation of \$1,800 and only averaged a monthly usage of \$159.

Our results revealed that the department used its cash revolving accounts within the intended purpose of the fund and in compliance with the Controller's Departmental Instruction No. 1052. Furthermore, we found that the expenditures made by the department were valid and properly supported.

RECOMMENDATIONS:

To ensure that the Department of Public Health properly administers its Central Office revolving fund accounts, we recommend that the department take the following actions:

- Write off the 104 checks totaling \$2,702.59 that have been outstanding for more than six months and deposit the remaining overage of \$3,470.22 into the department's non-operating revenue account.
- Return the \$600 of borrowed petty cash to the appropriate non-revolving fund accounts.
- Return the borrowed \$10 to the fund custodian.

- Conduct periodic, independent surprise cash counts at all fund locations to ensure appropriate safeguarding of fund assets.
- Review the monthly bank reconciliations along with the operating fund's outstanding check listing with greater scrutiny.
- Designate a backup fund custodian for each fund location. There should also be a backup staff person to prepare monthly bank reconciliations.
- Periodically analyze fund usage at the different fund locations and adjust the account allocation appropriately for optimal utilization.
- Instruct all fund custodians to obtain advance approval of fund transfers between locations.

EXHIBIT

Central Office			
Cash Revolving Accounts			
As of August 31, 2005	<i>Allocated Amount</i>	<i>Audited Amount</i>	<i>Overage</i>
<i>Stipend Funds</i>			
AIDS OFFICE - HIV Research Project	\$ 3,300.00	\$ 3,910.00	\$ 610.00
AIDS OFFICE - Behavioral Surveillance Surveys	3,000.00	3,010.00	10.00
AIDS OFFICE - Heyman Surveillance Project	1,000.00	1,000.00 ^a	-
Urban Health - Enhanced Hepatitis Survey Project	750.00	750.00	-
Urban Health - Action Point Adherence Project	1,800.00	1,800.00	-
STD Services Section - Safe City Project	6,000.00	6,000.00	-
CSAS Client Incentives	1,300.00	1,300.00	-
FED CSOC	3,000.00	3,000.00	-
<i>Subtotal</i>		\$ 20,770.00	
<i>Change Funds</i>			
Administrative Office	\$ 50.00	\$ 50.00	-
Records/Statistics	100.00	100.00	-
Refuse Lien	50.00	50.49	\$ 0.49
Adult Immunization Clinic	200.00	200.00	-
<i>Subtotal</i>		\$ 400.49	
<i>Client Emergency Funds - Mental Health</i>			
Chinatown North Beach	\$ 250.00	\$ 250.00	-
South of Market	250.00	250.00	-
Mission	250.00	260.00	\$ 10.00
Central City Older Adult	250.00	250.00	-
OMI Family Center	250.00	255.00	5.00
Sunset	250.00	250.00	-
Center for Central Problems	250.00	250.00	-
<i>Subtotal</i>		\$ 1,765.00	
<i>Recovery Expense Funds - Mental Health</i>			
Chinatown North Beach	\$ 750.00	\$ 750.00	-
Sunset	1,000.00	1,000.38	\$ 0.38
<i>Subtotal</i>		\$ 1,750.38	
<i>Miscellaneous Funds</i>			
Operating	\$ 18,450.00	\$ 21,894.35	\$ 3,444.35
Petty Cash - CPHS	500.00	500.00	-
<i>Subtotal</i>			
<i>Total</i>			
	\$ 43,000.00	\$ 47,080.22	\$ 4,080.22

^a This fund was not actually audited but disclosed subsequent to audit procedures performed.

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COMMUNITY MENTAL HEALTH SERVICES

Reporting Period: June 1, 2004, through August 31, 2005

Authorized Amount: \$1,000

MENTAL HEALTH'S REVOLVING FUND BALANCE EXCEEDED ITS AUTHORIZED AMOUNT

As of August 31, 2005, the Community Mental Health Services (Mental Health) cash revolving fund balance of \$1,000 exceeded the amount authorized in the San Francisco Administrative Code (Administrative Code) and as recorded in Office of the Controller's (Controller) Financial Accounting and Management Information System (FAMIS) by \$174. This occurred because Mental Health issued 13 checks totaling \$174 over the past four years that were never cashed or written off. The Controller's Departmental Instruction No. 1052, however, requires city departments to write off checks that have been issued and are outstanding for more than six months and to deposit the amount of the checks to the department's non-operating revenue account.

Mental Health Needs to Improve Administration Of Its Revolving Fund

Our procedures also revealed that Mental Health did not prepare monthly bank reconciliations on a timely basis from May 2005 to August 2005 during the 15-month review period. According to the senior accountant, this occurred because there was no back up accountant while she was on extended leave. The Controller's Departmental Instruction No. 1052 requires departments to prepare monthly bank reconciliation of revolving fund accounts.

Nevertheless, we found that Mental Health used the cash revolving fund assets within the intended purpose of the fund and in compliance with the Controller's Departmental Instruction No. 1052. Further, we found that the department's internal controls over its revolving fund were adequate and the expenditures made by Mental Health were valid and properly supported. In addition,

we determined that the revolving fund amount is sufficient to meet Mental Health's operational needs.

RECOMMENDATIONS:

To ensure that Community Mental Health Services of the Department of Public Health properly administers its revolving fund, we recommend that Mental Health take the following actions:

- Write off the 13 checks totaling \$174 that have been outstanding for more than six months and deposit the amount of the checks to the department's non-operating revenue account.
- Designate a back up accountant to perform monthly bank reconciliations whenever the primary accountant is not available.

We conducted these reviews according to the standards established by the Institute of Internal Auditors. We limited our reviews to those areas specified above.

Staff: Kevin Baloca, Audit Manager
Wing Yiu

DEPARTMENT OF PUBLIC HEALTH RESPONSE TO THE REPORT

City and County of San Francisco




Department of Public Health

Gregg Sass
Chief Financial Officer

MEMORANDUM

July 28, 2006

TO: Ed Harrington
Controller

FROM: Gregg Sass 
Chief Financial Officer

RE: Review of Cash Revolving Funds from June 2004 through August 2005

Thank you for your draft report on the review of two cash revolving funds from June 1, 2004 through August 31, 2005. We concur with your findings. We have reviewed the findings and will implement corrective action. The following is a detailed response to your findings.

Central Office

- Write off the 104 checks totaling \$2,702.59 that have been outstanding for more than six months and deposit the remaining overage of \$3,470.22 into the department's non-operating revenue account.

We have written off the 104 checks and a total of \$3,444.35 has already been deposited. The fund custodians have been notified to remit a total of \$25.87 excess funds. When excess funds are received, they will be deposited into the appropriate accounts.

- Return the \$600 of borrowed petty cash to the appropriate non-revolving fund accounts.

The fund custodian has been notified to return the borrowed petty cash and cash will be deposited into the appropriate funds.

- Return the borrowed \$10 to the fund custodian.

The fund custodian has been notified to return the borrowed \$10.

- Conduct periodic, independent surprise cash counts at all fund locations to ensure appropriate safeguarding of fund assets.

We concur with the finding and will implement the recommendation.

Memo to Edward Harrington
Review of Cash Revolving Funds June 2004 – Aug 2005
July 28, 2006

- Review the monthly bank reconciliations along with the operating fund's outstanding check listing with greater scrutiny.

We concur with the finding and will implement the recommendation.

- Designate a backup fund custodian for each fund location. There should also be a backup staff person to prepare monthly bank reconciliations.

Fund custodians will be reminded to designate a backup, if no backup has been designated. Backup staff will be assigned to prepare monthly bank reconciliations.

- Periodically analyze fund usage at the different fund locations and adjust the account allocation appropriately for optimal utilization.

We concur with the recommendations and will conduct more frequent analyses and will adjust account allocations appropriately.

- Instruct all fund custodians to obtain advance approval of fund transfers between locations.

Fund custodians will be instructed to obtain advance approval.

Community Mental Health Services

- Write off the 13 checks totaling \$174 that have been outstanding for more than six months and deposit the amount of the checks to the department's non-operating revenue account.

We have written off the 13 checks and have deposited the \$174 into the appropriate accounts.

- Designate a back up accountant to perform monthly bank reconciliations whenever the primary account is not available.

Backup staff will be assigned to prepare monthly bank reconciliations.

If you have any questions, please call Anne Okubo at 554-2857.

cc: Anne Okubo
Rudy Papa

cc: Mayor
Board of Supervisors
Civil Grand Jury
Public Library
Budget Analyst