



Joint Legislative Audit Committee  
Office of the Auditor General



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**FINANCIAL AUDIT REPORT  
HEALTH CARE DEPOSIT FUND  
YEAR ENDED JUNE 30, 1979**

REPORT TO THE  
CALIFORNIA LEGISLATURE

REPORT **F-515-912**

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

515-912

FINANCIAL AUDIT REPORT  
HEALTH CARE DEPOSIT FUND  
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



# California Legislature

## Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI  
CHAIRMAN

November 21, 1980

515-912

The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Health Care Deposit Fund, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Michael Dendorfer, CPA; Ross Luna; Robyn Graves; and Harriet Kiyan.

Respectfully submitted,

S. FLOYD MORI  
Chairman, Joint Legislative  
Audit Committee

Attachment

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## INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Health Care Deposit Fund. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The Health Care Deposit Fund was created by Chapter 4, Statutes of 1965 as a depository of monies to be used to provide a program of medical assistance. The program, known as Medicaid at the federal level and as the California Medical Assistance Program (Medi-Cal) under California law, provides health care and social services for recipients of public assistance and the medically indigent aged. Persons eligible for benefits are those who lack sufficient annual income to meet the costs of health care.

Approximately 45 percent of the program is funded by the Federal Government through Title XIX of the Social Security Act, and the State and counties share in the balance of funding. Chapter 292, Statutes of 1978, appropriated \$418 million from the General Fund to relieve the counties' share of Medi-Cal expenditures for 1978-79. This action was

part of a \$1.5 billion state fiscal relief package to help county governments offset revenue losses that resulted when the passage of Proposition 13 reduced property taxes.

The State Department of Health Services is responsible for the administration of the Health Care Deposit Fund.


AUDITOR'S OPINION

We have examined the statement of assets and liabilities of the Health Care Deposit Fund as of June 30, 1979 and the related statement of revenues and expenditures for the year then ended. Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Section 10850 of the California Welfare and Institutions Code bars the Auditor General from access to eligibility information which identifies by name and address any applicant or recipient of public assistance. Accordingly, we could determine only that an amount was paid to or for an individual, but we were precluded from determining if the amount paid was proper or if the payee was a legal beneficiary. This restriction applied to \$3.17 billion of total expenditures stated at \$3.40 billion. Thus, we did not examine adequate evidential matter for about 93 percent of the expenditures of the Health Care Deposit Fund.

As explained in Note 1 thereto, the aforementioned financial statements have been prepared, generally on the cash basis, except they include accruals of certain amounts due to and from other state funds and from federal and local governments. Accordingly, the aforementioned financial statements do not present financial position and results of operations in accordance with generally accepted accounting principles.

Since we did not examine adequate evidential matter for expenditures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the aforementioned financial statements.

  
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WESLEY E. VOSS  
Assistant Auditor General

Date: August 6, 1980

Staff: Curt Davis, CPA  
Michael Dendorfer, CPA  
Ross Luna  
Robyn Graves  
Harriet Kiyan

STATE OF CALIFORNIA  
HEALTH CARE DEPOSIT FUND

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 1979

ASSETS

Cash	\$ 1,888,120
Receivables	9,099,338
Due from other governments (Note 2)	42,663,423
Due from other funds	6,699,139
Prepayments to other funds	<u>1,214,233</u>
Total Assets	<u>\$61,564,253</u>

LIABILITIES

Due to other funds (Note 3)	\$61,170,015
Prepayments from other funds	<u>394,238</u>
Total Liabilities	<u>\$61,564,253</u>

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



STATE OF CALIFORNIA  
HEALTH CARE DEPOSIT FUND

STATEMENT OF REVENUES AND EXPENDITURES

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
Intergovernmental revenues	\$ 1,450,353,948
Miscellaneous revenues	<u>25,820</u>
Total Revenues	<u>1,450,379,768</u>
Expenditures:	
Medical assistance program (Note 4)	3,170,665,138
Local government administration	115,685,295
State administration	70,074,318
Fiscal intermediary administration	46,030,566
Board of Control claims	<u>943,724</u>
Total Expenditures	3,403,399,041
Excess of Expenditures over Revenues	(1,953,019,273)
Other Financing Sources (Uses):	
Operating transfers in (Note 5)	1,939,177,714
Reverted appropriations	<u>13,841,559</u>
Total Other Financing Sources	<u>1,953,019,273</u>
Excess of Revenues and Other Sources over Expenditures and Other Uses	<u>\$ --</u>

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

STATE OF CALIFORNIA  
HEALTH CARE DEPOSIT FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Health Care Deposit Fund have been prepared generally on the cash basis, except that they include partial accruals of amounts due to and from other state funds and from federal and local governments. This method of accounting does not present financial position and results of operations in accordance with generally accepted accounting principles.

The financial statements of the Health Care Deposit Fund are prepared to conform with state legal requirements as defined in Section 14159 of the Welfare and Institutions Code. This section, in part, states:

Expenditures for services and for state and county administration shall be charged against the appropriation for the fiscal year in which the billing is paid.... [Emphasis added.]

Accordingly, all 1978-79 fiscal year billings or charges for services provided during the accounting period and not paid prior to June 30 are charged against a subsequent year appropriation.

The Health Care Deposit Fund is an expendable trust fund that is used to account for the receipt and disbursement of monies for the California Medical Assistance Program. Monies for Medi-Cal operations are provided by the Federal Government, the counties, and the State's General Fund. Chapter 292, Statutes of 1978, appropriated \$418 million from the General Fund to relieve the counties' share of Medi-Cal program expenditures for 1978-79. The State Controller deposits into the Health Care Deposit Fund all federal monies received under the provisions of Title XIX of the Social Security Act.

2. DUE FROM OTHER GOVERNMENTS

This account includes \$35.4 million due from the Federal Government for its unreimbursed share of Medi-Cal costs and \$7.2 million due from county governments for administrative costs.

3. DUE TO OTHER FUNDS

This account reflects the balance owed to the General Fund for outstanding loans and administrative costs. As provided for in the legislative Budget Act, the General Fund is authorized to make loans not to exceed \$45 million to the Health Care Deposit Fund. At June 30, 1979 this loan amount totaled \$42 million. The additional \$19 million recorded in this account is the amount owed to the General Fund by the Health Care Deposit Fund for its share of administrative expenditures which were initially paid from the General Fund.

4. EXPENDITURES - MEDICAL ASSISTANCE PROGRAM

To comply with the state legal requirements previously described, the State Department of Health Services recorded expenditures that are applicable to Medi-Cal on the cash basis. As a result of this accounting procedure, approximately \$628 million in payables were not recognized in the 1978-79 fiscal year.

Had the statements been prepared on an accrual basis of accounting as required by generally accepted accounting principles, the liabilities of the Health Care Deposit Fund would be increased by \$628 million, and the amount due from the General Fund and from federal and county governments would be increased by this amount. Of the unrecorded amount, we estimate that \$371 million is an obligation of the General Fund and county governments and that \$256 million is an obligation of the Federal Government.

5. OPERATING TRANSFERS IN

This account reflects the amount of the State's and the counties' share of medical assistance program costs transferred from the General Fund during fiscal year 1978-79.

6. CONTINGENT RECEIVABLES

The following receivables are contingent because the recoverable amounts cannot be determined and, therefore, have not been recorded in the accounts. The estimated recoverable amounts (see below) have been based on prior collection history.

	Gross Account Receivable	Realizable Amount		
		Total	General Fund Share	Federal Share
Health insurance	\$172,131,899	\$12,049,233	\$ 7,199,417	\$ 4,849,816
Casualty insurance (subrogation claims)	60,294,229	15,073,557	9,684,007	5,389,550
Compliance	15,349,921	7,961,191	4,681,180	3,280,011
Total	<u>\$247,776,049</u>	<u>\$35,083,981</u>	<u>\$21,564,604</u>	<u>\$13,519,377</u>

## 7. CONTINGENT LIABILITIES

The following Federal Audit Exceptions, in various stages of review and appeal, should be considered potential liabilities in the event the appeal is not successful.

<u>Federal Number</u>	<u>State Number</u>	<u>Amount</u>
ME-CA-7501	76-2	\$ 1,579,638
ME-CA-7601	76-6	420,100
90213-09	76-5	4,438,144
ME-CA-7401	76-7	331,475
70217-09	76-9	7,796,900
80222-09	76-22	215,602
SRS-IX-6	76-24	1,962,414
ME-CA-7506	76-25	2,632,770
ME-CA-7505	76-35	802,388
80212-09	76-50	410,711
EP-CA-7501	76-49	1,941,859
EP-CA-7601	76-49	2,150,815
90150-09	77-3	2,329,401
80215-09	77-6	429,973
SRS-IX-MS	77-8	5,029,165
90220-09	77-17	744,874
90220-09	77-17	3,126,128
90204-09	77-18	18,006,058
90203-09	77-20	5,703,794
90205-09	78-3	1,640,148
79-174-CA	78-6	6,684,410
CA-78	78-11	130,279
None given	79-2	1,131,203
		<u>\$69,638,249</u>

### OTHER COMMENTS

As an integral part of our examination, we reviewed the State Department of Health Services' accounting procedures and the related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the Health Care Deposit Fund's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

This review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the State Department of Health Services.

The department concurs with the suggested operating improvements.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps