



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

October 4, 2001

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: REVIEW OF LAC+USC MEDICAL CENTER CASH CONTROLS

We have completed a review of LAC+USC Medical Center's (LAC+USC) internal controls over cash receipts and revolving funds. Our review included a surprise cash count of funds in the cashiers' office and reviews of controls over the revolving fund, cash receipts and the cashiers' office.

Summary of Findings

Our review indicates that LAC+USC needs to improve its controls over the revolving fund and cash receipts. The following are examples of the specific weaknesses noted in our review.

- LAC+USC needs to monitor its revolving fund and ensure that reconciling items are resolved. At the time of our review, the balance in the fund exceeded the assigned \$10,000 account balance by \$9,000, primarily because LAC+USC was reimbursed for checks that had not been cashed by the payees. The checks had been outstanding for over a year.
- Four (21%) of the twenty-one revolving fund expenditures we tested were for purchases that should not have been made with the revolving fund.
- LAC+USC does not process returned (NSF) checks within the time frames required by the County Fiscal Manual.

Some of the control weaknesses identified in our review could result in a loss of County funds. The detailed results of our review are included in the Attachment.

Review of Report

DHS and LAC+USC management concurred with our findings and recommendations. LAC+USC's response to this report, including planned corrective action, is attached. If you have any questions or comments, please contact me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:js

Attachment

c: Fred Leaf, Acting Director, Health Services
David E. Janssen, Chief Administrative Officer
Judy Hammond, Public Information Office
Audit Committee (6)

LAC+USC MEDICAL CENTER REVIEW OF CASH CONTROLS

BACKGROUND

LAC+USC Medical Center's (LAC+USC) cashiering unit collects payments for medical care and for non-patient services (e.g., copying medical records). Collections average \$1.2 million a month. The cashiering unit also controls LAC+USC's various cash funds, safeguards patient valuables and issues cash aid and bus tokens to patients. The cashiering unit is part of LAC+USC Financial Management. The central cashiering unit, located in General Hospital, processes most of the cash payments received at LAC+USC. In addition to the cashiering operation, LAC+USC Expenditure Management and Materials Management have \$10,000 and \$1,000 revolving fund checking accounts, respectively, for miscellaneous expenditures.

Revolving Fund

Revolving Fund Overage

LAC+USC Expenditure Management has a \$10,000 revolving fund checking account that is used to make small purchases. Revolving funds are imprest accounts. Thus, the total cash on hand or in a checking account plus unreimbursed amounts should always equal the assigned amount of the fund. Allowing a revolving fund to exceed the established amount could result in funds being misappropriated without being detected.

At the time of our review, the balance in LAC+USC's revolving fund was over \$19,000, almost double the authorized amount. It appears that the overage accumulated because LAC+USC Expenditure Management did not monitor the account balance. LAC+USC issued checks from the fund and requested reimbursement from the Auditor-Controller for those expenditures. However, some of the revolving fund checks were never cashed by the payees. There were 22 uncashed checks, totaling approximately \$7,400, that had been outstanding for over one year. Twelve of the 22 checks, totaling approximately \$4,800, were issued to the Immigration and Naturalization Service for processing fees for visas for medical staff.

Based on the age of the outstanding revolving fund checks, we recommend that LAC+USC notify the Immigration and Naturalization Service and other payees of the uncashed checks and that the County will stop payment on the checks in thirty days. After thirty days, LAC+USC should request the bank to stop payment on the checks and return the excess funds to the Auditor-Controller as an overage.

Recommendations

LAC+USC Expenditure Management:

- 1. Notify the payees of the uncashed checks (Immigration and Naturalization Service and others) and that the County will stop payment on the checks in thirty days.**
- 2. After thirty days, request the bank to stop payment on the remaining uncashed checks and return the excess funds to the Auditor-Controller as an overage.**

Revolving Fund Reconciliations

The uncashed checks and related overage in LAC+USC's revolving fund would have been identified if LAC+USC had been properly monitoring the fund and resolving reconciling items as required by the County Fiscal Manual. The Fiscal Manual requires that accounts be reconciled within thirty days of the bank statement date and that departments resolve reconciling items (e.g., uncashed checks) within thirty days. We found that LAC+USC Expenditure Management was not reconciling the fund as required. At the time of our review, the fund had not been reconciled in three months. We also noted that the hospital's patient revolving cash trust fund had not been reconciled for six months. In addition, the reconciliations for both accounts that had been completed in prior months were not approved by the appropriate supervisor.

Recommendation

- 3. LAC+USC Financial Management ensure that all revolving funds are kept at the approved amounts and that the accounts are reconciled and reconciling items resolved as required by the County Fiscal Manual.**

Checking Account Conflict of Duties

To minimize the opportunity for employees to misappropriate or misuse funds without being detected, the Fiscal Manual requires that cash handling duties be separated. We found that the LAC+USC Materials Management revolving fund custodian is also authorized to sign revolving fund checks. In addition, we noted that LAC+USC Expenditure Management does not notify the bank of changes in authorized signers for the checking accounts. For example, two employees who left County service over one year ago were still on the bank's list of authorized signers.

Recommendations

- 4. LAC+USC Materials Management maintain adequate separation of duties over its revolving fund checking account.**
- 5. LAC+USC Expenditure Management notify the bank of changes in the list of authorized check signers.**

Improper Use of Revolving Funds

The County Fiscal Manual states that revolving funds are to be used for emergencies, when prepayment is required or when immediate payment can result in cost savings or purchasing advantage. In all other instances, various vendor purchase orders should be used. The Fiscal Manual also states that revolving funds should not be used for items covered by purchasing agreements unless absolutely necessary.

We tested a sample of 21 revolving fund purchases and found that four (19%) of the purchases should not have been paid for out of the revolving fund. All of the items should have been paid for through the payment voucher system.

- A \$644 payment to a vendor who has a contract to provide ongoing services at LAC+USC.
- A \$186 expenditure for art work for the OB/GYN clinic.
- A \$162 purchase of picture frames for Health Information Management.
- A \$93 expenditure for office supplies.

Recommendation

- 6. LAC+USC Expenditure Management ensure that the revolving fund is only used in emergencies, when prepayment is required, when immediate payment will result in cost savings or where a purchasing advantage can be achieved**

Cashiering Office

Unclaimed Deposits

LAC+USC previously used a tracking system to control access to the employee cafeteria. Employees paid a \$5 deposit and were issued a Validine card. The deposit was placed into a trust fund. The Validine deposit trust fund has a \$4,275 balance, \$2,000 is kept in cash and the balance is kept in a trust account.

The Fiscal Manual requires that trust funds be closed when they are no longer used. LAC+USC has not used the Validine cards since December 1999 and the cashier's office has not issued a refund since May 2000. LAC+USC should deposit the \$2,000 in cash into the trust account and work with County Counsel to determine how the unclaimed deposits should be dispositioned.

Recommendations

LAC+USC Financial Management:

- 7. Deposit the \$2,000 in unclaimed Validine deposits into the trust account.**
- 8. Work with County Counsel to determine how the unclaimed deposits should be dispositioned.**

Controls over Blank Checks and Receipts

To ensure that revolving funds are adequately safeguarded, the Fiscal Manual requires departments to inventory/account for all checks (used and unused) at least monthly. In addition, departments must inventory all used and unused receipts at least annually. LAC+USC Expenditure Management has not performed the required inventories. Expenditure Management indicated they were not aware of the requirement to perform the inventories.

Recommendation

- 9. LAC+USC Expenditure Management inventory used and unused checks at least monthly and inventory used and unused receipt books at least annually.**

NSF Checks

When a patient pays by check and the check is returned by the bank because of "Not Sufficient Funds" (NSF), the County Fiscal Manual requires that a letter demanding payment (Demand Letter) be sent immediately notifying the patient that he/she has thirty days to make payment. If payment is not received within the thirty days, the check should be referred to the Treasurer and Tax Collector (TTC).

We found that LAC+USC does not always send out the Demand Letters immediately after the NSF checks are returned. In addition, LAC+USC does not always forward the NSF checks to TTC within the required timeframe. We noted that ten out of 28 (36%) NSF checks returned by the bank in August 2000 were not sent to TTC until 18 to 53 days after the thirty-day period.

Recommendation

- 10. LAC+USC Financial Management ensure that NSF check Demand Letters are sent and NSF checks are referred to TTC as required by the County Fiscal Manual.**

Receipt of Mailed-in Payments

LAC+USC receives payments in the mail from patients and others. The Fiscal Manual requires that, when a large volume of payments (checks and money orders) is received by mail, two employees be assigned to open the mail and prepare a list of the payments received. While LAC+USC has two employees who open the mail, the employees work in separate locations and do not open the mail in each other's presence. This increases the risk of loss.

Recommendation

- 11. LAC+USC Financial Management ensure that the two employees who open mailed-in payments work together when opening the mail.**

Referral of Payments to Billing Inquiry

The Fiscal Manual requires that the functions of receiving payments and updating individual accounts be separated. At LAC+USC, when the cashiers' office cannot determine the account to which a payment should be posted, the checks and money orders are sent to the Patient Financial Services' Billing Inquiry Unit to be researched.

Allowing staff who update account to have access to payments could allow a loss of funds to occur without being detected. The cashiers' office should stop sending payment checks and money orders to Billing Inquiry Unit for research and send copies of checks/money orders instead.

Recommendation

- 12. LAC+USC Financial Management instruct the cashier's office to stop sending payment checks and money orders to Billing Inquiry Unit for research and send copies of the checks and money orders instead.**

Inventory of Safe Contents

The Fiscal Manual requires departments to inventory the contents of the safe every six months. We found that LAC+USC does not inventory or document the contents of the safe. At the time of our review, the safe contained approximately \$10,000 in cash and checks in a secured money bag, \$900 worth of bus tokens, blank checks, a \$5,000 payment bond from a vending machine contractor and \$2,235 in cash for the change fund.

Recommendation

13. LAC+USC Expenditure Management perform and document the physical inventory of the safe's contents every six months.



BOARD OF SUPERVISORS

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FRED LEAF, Acting Director

COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
313 N. Figueroa, Los Angeles, CA 90012
(213) 240-7901

September 26, 2001

TO: J. Tyler McCauley
Auditor-Controller

FROM: Fred Leaf, Acting Director
Department of Health Services

SUBJECT: **REVIEW OF THE CASH CONTROLS PROCESS - LAC+USC
MEDICAL CENTER**

Attached is our response to the Auditor-Controller Audit Division's review of the LAC+USC Medical Center's Cash Controls process.

The Department of Health Services concurs with your recommendations which have already been implemented or are in process of being implemented.

If you have any questions or need additional information, please let me know or your staff may contact Sachi Hamai at (213)240-7901.

SH:yw

Attachment

c: Sachi Hamai

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUBJECT: REVIEW OF THE CASH CONTROLS PROCESS - LAC+USC MEDICAL CENTER

AUDITOR-CONTROLLER RECOMMENDATION #1:

LAC+USC Expenditure Management notify the payees of the uncashed checks (Immigration and Naturalization Service and others) and that the County will stop payment on the checks in thirty days.

DHS Response:

Concur. The recommendation is scheduled to be completed by October 31, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #2:

After thirty days, request the bank to stop payment on the remaining uncashed checks and return the excess funds to the Auditor-Controller as an overage.

DHS Response:

Concur. The recommendation is scheduled to be completed by October 31, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #3:

LAC+USC Expenditure Management ensure that all revolving funds are kept at the approved amounts and that the accounts are reconciled and reconciling items resolved as required by the County Fiscal Manual.

DHS Response:

Concur. Expenditure Management will implement this recommendation once the reconciling items covered in Recommendations #1 and #2 are addressed and resolved. It was agreed with the Auditor-Controller that the balances may temporarily exceed the approved amounts due to the time it takes some outstanding checks to clear. Expenditure Management will also monitor the fund to determine if the authorized amount should be supplemented.

AUDITOR-CONTROLLER RECOMMENDATION #4:

LAC+USC Materials Management maintain adequate separation of duties over its revolving fund checking account.

DHS Response:

Concur. The recommendation was implemented May, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #5:

LAC+USC Expenditure Management notify the bank of changes in the list of authorized check signers.

DHS Response:

Concur. The recommendation was implemented September, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #6:

LAC+USC Expenditure Management ensure that the revolving fund is only used in emergencies, when prepayment is required, when immediate payment will result in cost savings or where a purchasing advantage can be achieved.

DHS Response:

Concur. The recommendation has been implemented.

AUDITOR-CONTROLLER RECOMMENDATION #7:

LAC+USC Financial Management deposit the \$2,000 in unclaimed Validine deposits into the trust account.

DHS Response:

Concur. The recommendation was implemented September, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #8:

LAC+USC Financial Management work with County Counsel to determine how the unclaimed deposits should be dispositioned.

DHS Response:

Concur. The recommendation is scheduled to be completed by November 30, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #9:

LAC+USC Expenditure Management inventory used and unused checks at least monthly and inventory used and unused receipt books at least annually.

DHS Response:

Concur. The recommendation is scheduled to be completed by October 1, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #10:

LAC+USC Financial Management ensure that NSF check Demand Letters are sent and NSF checks are referred to TTC as required by the County Fiscal Manual.

DHS Response:

Concur. The recommendation has been implemented.

AUDITOR-CONTROLLER RECOMMENDATION #11:

LAC+USC Financial Management ensure that the two employees who open mailed-in payments work together when opening the mail.

DHS Response:

Concur. The recommendation was implemented May, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #12:

LAC+USC Financial Management instruct the Cashier's Office to stop sending payment checks and money orders to Billing Inquiry Unit for research and send copies of the checks and money orders instead.

DHS Response:

Concur. LAC+USC Financial Management photocopies payment information and sends in place of the original checks and money orders. The Cashier's Office's access to the CompuCare system will be augmented so that Cashiers Office staff will be able to determine necessary account information, thereby eliminating the need to refer any payment information to the Patient Financial Services Billing Inquiry Unit. The recommendation was implemented May, 2001.

AUDITOR-CONTROLLER RECOMMENDATION #13:

LAC+USC Expenditure Management perform and document the physical inventory of the safe's contents every six months.

DHS Response:

Concur. The safe is currently inventoried on an ongoing basis. Expenditure Management will issue an inventory report as of September 28, 2001 by October 5, 2001 and every six months thereafter.