



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

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November 1, 2010

TO: Cynthia Moore-Oliver, Chief Executive Officer
Martin Luther King, Jr. Multi-Service Ambulatory Care Center

FROM: Jim Schneiderman, Chief 
Audit Division

SUBJECT: **DEPARTMENT OF HEALTH SERVICES MARTIN LUTHER KING, JR.
MULTI-SERVICE AMBULATORY CARE CENTER SOUTH/WEST
CLUSTER – REVIEW OF TRUST FUNDS, REVOLVING FUNDS,
COMMITMENTS AND ACCOUNTS PAYABLE**

We have reviewed Martin Luther King, Jr. Multi-Service Ambulatory Care Center South/West Cluster's (MLK or Facility) trust funds, revolving funds, commitments and accounts payable. Our review included interviews with MLK financial management and staff, and tests of MLK records.

Our review indicates that MLK generally does a good job of maintaining documentation of cash transactions, appropriately secures cash and checks in safes, and limits the receiving and receipting of cash transactions to a few cashiers. However, we noted that MLK needs to ensure that trust accounts are used as intended, are reconciled as required, and that unclaimed funds are appropriately dispositioned. MLK also needs to cancel unneeded commitments, and maintain adequate controls over its accounts payable and revolving funds. The following are the detailed results of our review and recommendations for improvement.

Trust Accounts

MLK has four trust accounts which are used to account for patient and employee deposits, patient/insurance refunds, and State sales tax payments or collections. As of June 30, 2009, MLK had \$49,100 in its trust accounts. We reviewed MLK's controls over its trust accounts and noted the following:

- MLK was unable to locate documentation indicating the purpose and authority for any of their trust accounts. As a result, we could not determine whether the trust accounts were used appropriately. MLK staff provided us with their understanding of the intended use of the funds. However, we noted that several transactions we reviewed were not consistent with the intended use of the funds provided by MLK staff.
- County Fiscal Manual Section (CFM) 2.3.0 requires departments to reconcile their trust accounts to the County's official accounting records monthly, or quarterly if the account balance is less than \$5,000. MLK did not reconcile two of the four trust accounts, and could not provide 17 (57%) of the 30 reconciliations we requested for the other two trust accounts. As a result, we could not verify if the missing reconciliations were appropriately completed.
- Government Code Sections 50050 through 50057 (Code) indicate unclaimed funds should be transferred to the Treasurer and Tax Collector (TTC) for disposition. As of June 30, 2008, MLK's Patient Personal Deposit and Miscellaneous trust accounts had \$38,000 in patients' personal and employee key security deposits that could potentially be transferred to TTC under the Code. Of this amount, \$25,700 was for employee key security deposits. MLK needs to identify deposits from employees who are no longer employed at the Facility, whose deposits have been held for longer than the time required under the Code, and transfer all unclaimed deposits to TTC for disposition.

MLK should ensure that trust accounts are used as intended, and keep documentation of each trust account's purpose and authority. MLK should also reconcile the trust accounts monthly/quarterly, as required. In addition, MLK should transfer unclaimed funds to TTC on an ongoing basis and periodically review the accounts to identify unclaimed funds.

Recommendations

MLK management:

- 1. Ensure trust accounts are used as intended, and keep documentation of each trust account's purpose and authority.**
- 2. Reconcile trust accounts monthly/quarterly, as required.**
- 3. Transfer unclaimed funds to TTC, and periodically review the Patient Personal Deposit and Miscellaneous trust accounts to identify and transfer additional unclaimed funds to TTC.**

Commitments and Accounts Payable

At the end of each fiscal year (FY), County departments establish commitments to pay for services and supplies that were ordered or contracted for, but were not received by the end of the fiscal year. Departments also establish accounts payable for services and supplies that were received in the current year, but will be paid for in the subsequent year. Because commitments and accounts payable are estimates of future expenditures that restrict the County's available fund balance, departments should ensure that the amount of the reserves are as accurate as possible by monitoring them and cancelling them when they are not needed. Cancelled commitments and payables are returned to MLK's available fund balance, and may be budgeted for future spending. The Auditor-Controller's Accounting Division instructs departments to cancel unneeded commitments at the end of each fiscal year. Accounts payable are automatically cancelled at the end of the subsequent fiscal year if not used.

Commitments

At the end of FY 2006-07, MLK had 179 commitments totaling approximately \$12.4 million. We reviewed 20 of these commitments, totaling \$9 million, and noted that 13 (65%), totaling \$1.1 million, should have been cancelled. Four of these commitments had been carried forward from prior fiscal years, and should have been cancelled over four years earlier. Twelve of the commitments were no longer needed and MLK agreed that they should be cancelled. For the remaining commitment, the Facility could not provide information to verify that the obligation still exists.

We also reviewed 15 payments charged against commitments, totaling \$206,000, and noted that 11 (73%) payments, totaling \$176,300, were for services and supplies that had actually been received before the end of the fiscal year. MLK should have established accounts payable for these items because they were received before the end of the fiscal year. In addition, MLK did not have packing slips/receiving reports, or did not document that they received services, for three (20%) of the payments, totaling \$116,700. MLK should ensure that staff verifies the accuracy of packing slips/receiving reports or documents that they received services for each purchase, and ensure that they match invoices, requisitions/purchase orders and packing slips/receiving reports before issuing payments.

Accounts Payable

At the end of FY 2006-07, MLK established \$5.2 million in accounts payable. We reviewed payments charged against the accounts payable to determine whether the services and supplies were actually received before the end of the fiscal year. Our review disclosed no material findings. However, we also tested payments charged against FY 2007-08 purchase orders, and noted that MLK inappropriately charged \$188,500 for goods and services that were actually received in FY 2006-07 to the FY

2007-08 purchase orders. MLK should have established accounts payable for these items.

Recommendations

MLK management:

- 4. Reinstruct fiscal staff on establishing and cancelling commitments and accounts payable and monitor for compliance.**
- 5. Ensure that staff verify the accuracy of packing slips/receiving reports or document that they received services for each purchase, and ensure that they match invoices, requisitions/purchase orders and packing slips/receiving reports before issuing payments.**

Revolving Funds

Revolving funds are used for change funds, petty cash purchases, refunds and cash aid funds to provide money to indigent patients for bus fare or other transportation needs. At the time of our review, MLK had three revolving funds, totaling approximately \$16,900. The revolving funds were divided into six cashier change funds, two cash aid funds, two petty cash funds and a revolving cash trust fund. Subsequent to our review, MLK closed two of the change funds and a petty cash fund, totaling \$9,800. As a result, as of June 30, 2009, MLK's three revolving funds totaled approximately \$7,100. MLK has three cashier offices that use the revolving funds; one office at MLK and two offices at MLK's two health centers/comprehensive health centers. Our review of MLK's revolving funds noted the following:

- CFM Section 1.6.6 states that if a revolving fund is not reimbursed on a monthly basis, the fund assignment may be too large. At the time of our review, we noted that MLK had one petty cash fund, one cash aid fund and one revolving cash trust fund, totaling \$15,800, that had minimal activity. The petty cash and cash aid funds are no longer needed, and the Facility agreed that they should be closed. Subsequent to our review, MLK closed the petty cash fund. MLK should close the cash aid fund that is not needed, and reevaluate the revolving cash trust fund assignment to determine if the fund should be reduced or eliminated.
- Bank reconciliations must be performed monthly by a person with no deposit or check writing responsibilities. The reconciliations must be prepared in a timely manner so that reconciling items can be resolved within the next bank statement period. MLK could not provide 13 (72%) of the 18 reconciliations we requested. Of the five reconciliations provided, four reconciliations were completed an average of 27 days late, and one reconciliation was not dated or signed by a

supervisor. As a result, we could not determine whether the reconciliation was reviewed and/or prepared timely.

- MLK's total revolving fund amount does not match County's official records. As of June 30, 2009, County official records showed that MLK had revolving funds totaling \$6,700. However, we noted that MLK's revolving funds total \$7,100. MLK should ensure that revolving fund amounts are accurately reported on the County's official records.
- MLK does not maintain a Statement of Responsibility form for four of their revolving funds, as required by CFM Section 1.6.3.

Recommendations

MLK management:

- 6. Close the cash aid fund that is no longer needed and reevaluate the revolving cash trust fund assignment.**
- 7. Reconcile bank accounts monthly as required, ensure that reconciliations are appropriately reviewed and approved, and supporting documentation is maintained.**
- 8. Ensure revolving fund amounts are accurately reported on the County's official records.**
- 9. Ensure that a Statement of Responsibility form is completed and on file for each revolving fund.**

County Internal Control Certification Program

County Code Section 2.10.015 requires County departments to evaluate their fiscal controls annually using the County's Internal Control Certification Program (ICCP). The ICCP is intended to give departments the ability to assess their own internal controls and take corrective action to ensure compliance with County policies and standards.

When MLK evaluated its fiscal controls over trust accounts, revolving funds, commitments and accounts payable using the ICCP, management certified controls were in effect, but we noted otherwise. Many of the internal control weaknesses discussed in this report could have been identified and corrected if the Facility had properly completed the ICCP, as required.

To ensure that MLK correctly certifies that controls are in place, MLK management should conduct ICCP reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.

Recommendation

- 10. MLK management conduct ICCP reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.**

Review of Report

We discussed the results of our review with MLK financial management. MLK financial management agreed with our findings and recommendations, and will work to improve controls in these fiscal areas. MLK's detailed response (attached) describes the corrective actions they have taken, or plan to take to address the recommendations in our report. We thank MLK management and staff for their cooperation and assistance during our review.

We will be issuing a summary report of our reviews at all DHS facilities to the Board of Supervisors. Please call me if you have any questions, or your staff may contact Mike McWatters at (213) 253-0104.

JLS:MWM:JU

Attachment

c: Wendy L. Watanabe, Auditor-Controller
John F. Schunhoff, Ph.D., Interim Director, DHS
Miguel Ortiz-Marroquin, Chief Executive Officer, MetroCare Regional Care Network
Sharon Ryzak, Audit and Compliance Division, DHS
Audit Committee



Health Services
LOS ANGELES COUNTY

September 21, 2010

Los Angeles County
Board of Supervisors

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TO: Jim Schneiderman, Audit Division Chief
Auditor-Controller

FROM: John F. Schunhoff, Ph.D. *(Signature)*
Interim Director

SUBJECT: **MARTIN LUTHER KING, JR. MULTI-SERVICE
AMBULATORY CARE CENTER (MLK MACC)
TRUST ACCOUNTS, REVOLVING FUNDS,
COMMITMENTS AND ACCOUNTS PAYABLE REVIEW**

John F. Schunhoff, Ph.D.
Interim Director

Gail V. Anderson, Jr., M.D.
Interim Chief Medical Director

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report of its review of Trust Accounts, Revolving Funds, Commitments and Accounts Payable at MLK MACC. We concur with the recommendations contained in the report and have initiated or taken corrective actions to address the recommendations.

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If you have any questions or require additional information, please let me know or you may contact Sharon Ryzak at (213) 240-7901.

JFS:sr

Attachment

*To improve health
through leadership,
service and education*

c: Miguel Ortiz-Marroquin
Cynthia Moore-Oliver
Gregory C. Polk
Sharon Ryzak



www.dhs.lacounty.gov

**COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES
RESPONSE TO AUDITOR-CONTROLLER TRUST ACCOUNTS, REVOLVING
FUNDS, COMMITMENTS AND ACCOUNTS PAYABLE REVIEW –
MARTIN LUTHER KING, JR. MULTI-SERVICE AMBULATORY CARE CENTER
(MLK MACC)**

AUDITOR-CONTROLLER RECOMMENDATION #1

MLK management ensure trust accounts are used as intended, and keep documentation of each trust account's purpose and authority.

DHS response:

We agree. As directed in the County Fiscal Manual, Government Code Section 24351 will be referenced in a matrix developed by October 31, 2010, to document the purpose and authority for each trust account to ensure it is used as intended.

AUDITOR-CONTROLLER RECOMMENDATION #2

MLK management reconcile trust accounts monthly/quarterly, as required.

DHS response:

We agree. Revenue Accounting reviewed the existing policy, County Fiscal Manual 2.3.0 Trust Fund Reconciliations and Monitoring, and retrained staff on August 31, 2010, to ensure all four trust accounts are reconciled, as required.

AUDITOR-CONTROLLER RECOMMENDATION #3

MLK management transfer unclaimed funds to TTC and periodically review the Patient Personal Deposit and Miscellaneous trust accounts to identify and transfer additional unclaimed funds to TTC.

DHS response:

We agree. As of August 31, 2010, Revenue Accounting Staff have been trained on the updated procedures for monitoring the aging of unclaimed funds in the Patient Personal Deposit and Miscellaneous trust accounts to ensure unclaimed funds are transferred to TTC in a timely manner. A written procedure will be developed by October 31, 2010.

AUDITOR-CONTROLLER RECOMMENDATION #4

MLK management reinstruct fiscal staff on establishing and cancelling commitments and accounts payable and monitor for compliance.

DHS response:

We agree. The review identified partial commitments received prior to the end of the fiscal year which should have been established as accounts payable. Effective with the June 20, 2009 accounts payable list, MLK-MACC implemented a new practice that includes booking partial commitments received as accounts payable rather than commitments. The Procurement Manager will review the commitment listing with Expenditure Management on a biannual basis and evaluate if the commitments need to be cancelled. As of August 16, 2010, Fiscal staff were reinstructed on establishing and cancelling commitments and accounts payable.

On August 16, 2010, existing procedure, PROC 006, Ordering of Non Stock Materials, was revised and Materials Management staff were reinstructed to ensure packing slips are entered into Health Materials Management Systems (HMMS) in a timely manner, in order to generate an accurate automated accounts payable list and establish accounts payable at fiscal year end. Internal Audit Staff will review a sample of transactions at fiscal year end.

AUDITOR-CONTROLLER RECOMMENDATION #5

MLK management ensure that staff verifies the accuracy of packing slips/receiving reports or document that they received services for each purchase and ensure that they match invoices, requisitions/purchase orders and packing slips/receiving reports before issuing payments.

DHS response:

We agree. Materials Management will ensure staff verifies the accuracy of packing slips/receiving reports or document that they received services for each purchase and enter this into HMMS. Invoice Processing staff use the HMMS automated three way matching process to match requisitions/purchase orders, packing slips, and invoices before paying vendors based on invoiced amounts. Beginning July 2010, requisitions/purchase orders and packing slips are sent to Invoice Processing staff to be used to resolve issues with invoices that were not matched in HMMS. A written procedure will be developed and staff will be trained regarding how to use these documents for reconciliation of invoices by September 30, 2010. Beginning October 2010, the Procurement Manager will perform quarterly audits to ensure purchase orders have matching packing slips, which will be documented in a Quality Assurance form.

AUDITOR-CONTROLLER RECOMMENDATION #6

MLK management close the cash aid fund that is no longer needed and reevaluate the revolving cash trust fund assignment.

DHS response:

We agree. By October 30, 2010, MLK MACC management will review and reevaluate the cash aid fund and the revolving cash trust fund assignments and determine if they should be reduced or closed.

AUDITOR-CONTROLLER RECOMMENDATION #7

MLK management reconcile bank accounts monthly as required, ensure that reconciliations are appropriately reviewed and approved, and supporting documentation is maintained.

DHS response:

We agree. By October 31, 2010, MLK MACC management will ensure that bank accounts are reconciled monthly as required, reconciliations are appropriately reviewed and approved, and supporting documentation is maintained.

AUDITOR-CONTROLLER RECOMMENDATION #8

MLK management ensure revolving fund amounts are accurately reported on the County's official records.

DHS response:

We agree. MLK MACC management will ensure that revolving fund amounts are accurately reported on the County's official records. By September 30, 2010, a request will be made to reflect Hubert H. Humphrey Comprehensive Health Center's and Dollarhide Health Center's change funds in eCAPS.

AUDITOR-CONTROLLER RECOMMENDATION #9

MLK management ensure that a Statement of Responsibility form is completed and on file for each revolving fund.

DHS response:

We agree. By September 30, 2010, MLK MACC management will complete a Statement of Responsibility for each revolving fund and ensure it is kept on file.

AUDITOR-CONTROLLER RECOMMENDATION #10

MLK management conduct ICCP reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.

DHS response:

We agree. Materials Management, Expenditure Management and Patient Accounts will ensure that the ICCP questionnaires are accurately completed and address the weaknesses noted by the Auditor-Controller. Internal Audit Staff reviewed the ICCP questionnaires completed in March 2010, and determined that the forms were completed accurately and did not identify any additional weaknesses. Internal Audit Staff will conduct annual reviews to monitor the accuracy of the response.