



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Department of Health Services

As of September 2, 2004



Debra K. Davenport
Auditor General

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

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October 5, 2004

Catherine R. Eden, Ph.D., Director
Office of the Director
State of Arizona
Department of Health Services
150 North 18th Avenue, Suite 500
Phoenix, AZ 85007

Dear Dr. Eden:

We have performed a procedural review of the Department's internal controls in effect as of September 2, 2004. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, billings, and inventory at the Arizona State Hospital; cash receipts at the Division of Licensing Services and the Office of Vital Records; and transfers, journal entries, and statutory compliance for the entire Department.

As a result of our review, we noted certain deficiencies in internal controls that the Department's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. We must emphasize that the seriousness of the deficiencies cited indicates that the Department did not maintain effective controls over cash receipts and billings. Our recommendations concerning the deficiencies are described in the accompanying summary. The *State of Arizona Accounting Manual* also contains guidance that will help the Department correct these deficiencies.

This letter is intended solely for the information and use of the Department and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Debbie Davenport
Auditor General

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The Department should maintain effective controls over cash receipts

Because cash is highly susceptible to potential theft or misuse, the Department's management should establish and enforce effective controls to safeguard cash receipts. However, the Department has not accomplished this objective since the Office of Vital Records, Division of Licensing Services, and Arizona State Hospital did not have effective controls to ensure that all cash and checks received were safeguarded, deposited in a timely manner, and recorded accurately. For example, the Office of Vital Records' supporting documents for birth and death certificates that it issued could not be reconciled with corresponding daily deposits. Also, the Division of Licensing Services' cash receipt forms were not issued in sequential order or fully completed. In addition, the Division did not retain voided receipt forms or file copies of receipt forms issued with copies of the deposit slips. As a result, auditors were unable to determine that all monies collected were recorded and deposited.

In addition, auditors noted the following problems for one or more divisions: mail receipts were not sufficiently controlled since two employees were not present when the mail was opened and the revenue log was prepared, and checks and money orders received were not restrictively endorsed when the mail was opened. Also, cash receipts were not secured in a locked safe or cash box prior to deposit, deposits were made up to 8 business days late, and accounting records were not updated daily.

The Department should ensure that all divisions receiving cash establish proper cash-handling and recording policies and procedures, and periodically monitor that those procedures are being followed and are operating effectively. The following procedures can help the Department ensure that all cash receipts are secured, deposited in a timely manner, and recorded accurately:

- Train employees on cash receipt procedures prior to assigning them cash receipt responsibilities.
- Require that two employees be present when the mail is opened and the revenue log is prepared.
- Restrictively endorse all checks and money orders immediately upon receipt.

- Keep cash receipts in a locked drawer or safe until deposited.
- Use prenumbered cash receipt forms in sequential order and fully complete each form issued.
- Mark voided cash receipt forms as such and retain all copies.
- Reconcile cash receipts and support to the deposit and retain all documentation supporting the deposit with the validated deposit slip.
- Deposit cash receipts daily when total receipts exceed \$500 or at the end of each week.
- Post cash receipts to accounting records daily.

The Department should maintain supporting documents for patient and certified paper billings

To help ensure that the Department collects all revenues to which it is entitled, it is essential that charges for patient services and certified paper be billed accurately. However, the Department may not have billed all charges accurately. For example, the Arizona State Hospital's monthly billing was based on a daily census report that was signed by the nurse to verify that the patient was present for the day. However, auditors reviewed the monthly billings for March, April, and May 2004 and noted that daily census reports were missing for 35 days from this 3-month period. As a result, auditors could not determine that the proper amounts were billed. In addition, auditors reviewed the Office of Vital Records' billings for certified paper and noted that the Office did not maintain complete vault logs, which are used to track all shipments of certified paper, for March and April 2004. As a result, auditors were unable to verify the number of boxes of paper shipped and that the appropriate amounts were billed.

To help strengthen controls over billings for services and goods, the Department should establish written billing and collection procedures and periodically monitor that divisions are following them. The following procedures can help the Department ensure the billings' accuracy and completeness:

- Retain appropriate documentation to support all billings.
- Reconcile daily census reports to monthly patient billings.
- Reconcile the vault log of certified paper shipments to billings.

The Department should maintain effective controls over cash receipts.

ADHS Response:

The Department acknowledges the susceptibility of cash to theft or misuse. We concurrently recognized the areas where improvements could be made. As such, the following steps have been, or are being implemented:

- Vital Records has well established cash receipts training sessions for newly recruited counter and mail processing employees. In early fiscal year 2005, Vital Records began utilizing an updated and more comprehensive computer based cash receipts, revenue recording and documentation tracking system. This system should improve Vital Record's abilities to manage cash receipts.
- Staffing levels, recruitment issues and retention difficulties have affected many parts of State Government. These too have impacted the offices and areas addressed in this procedural finding. The Division of Licensing Services is providing training to three (3) recently appointed staff. The Division of Licensing Services has also obtained approval to recruit an additional business oriented staff member. A portion of this position's duties will include monitoring the opening of mail. The Division of Licensing Services expects this new staff member to receive training about cash receipts and control soon after they are appointed. The Arizona State Hospital recently appointed a new Patient Finance Manager. This position is responsible for most of the cash receipting and documentation for the State Hospital. The State Hospital has begun having two individuals present when mail is opened and revenue logs prepared.
- The Department will be evaluating the costs and benefits that may come from installing cash drawer capabilities in the Division of Licensing Services.

The Department should maintain supporting documents for patient and certified paper billings.

ADHS Response:

The Arizona State Hospital is in the process of ensuring daily verification of patient census to confirm billings. The daily census data exists but was not consolidated in the billing area for the period reviewed.

The Department concurs with the findings that the proper internal billing documentation in the Vital Records vault could not be found for one of the five boxes of certified paper billed to Yuma County in April. Vital Records has verified with Yuma County that all certified paper sent by Vital Records was received. Vital Records has determined that Yuma was billed for one box more than was shipped. In addition, Vital Records has reinforced the proper billing and logging of certified paper procedures with vault staff and are insuring that the appropriate documentation is properly filed.