

# COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDIT UNIT

## INTERNAL AUDIT REPORT

### SOBRIETY BRINGS A CHANGE AGREED-UPON PROCEDURES

DEPARTMENT OF HEALTH SERVICES



Audit Committee Submittal Date: 01/24/2022

## **SUMMARY**

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### **Background**

This fiscal monitoring Agreed-Upon Procedures was requested by Department of Health Services (DHS) as Sobriety Brings A Change (SBAC) is assessed as one of the high risk subrecipients based on DHS' subrecipient risk assessment.

SBAC is a community based outpatient treatment agency that provides services in the Sacramento community. DHS contracted with SBAC for Alcohol and Drug Services Program to provide outpatient treatment services to residents of Sacramento County to address alcohol and other substance use disorders. Internal Audit Unit performed this Agreed-Upon Procedures engagement for the period July 1, 2018 to June 30, 2020.

### **Audit Objective**

To assist DHS assessing SBAC's financial condition and compliance with the Agreements between DHS and SBAC and to verify that monthly invoice claims submitted by SBAC are accurate and reasonable.

### **Summary**

Based on our agreed-upon procedures performed, we noted concerns regarding internal controls, financial statements and claim submissions.

**Department of Finance**

Ben Lamera  
Director



**Auditor-Controller Division**

Joyce Renison  
Assistant Auditor-Controller

**County of Sacramento**

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December 8, 2021

Chevon Kothari, Director  
Department of Health Services  
County of Sacramento  
7001-A East Parkway, Suite 1000  
Sacramento, CA 95823

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

Dear Ms. Kothari:

We have performed the procedures, enumerated below, which were requested and agreed to by you, regarding the fiscal compliance of Sobriety Brings A Change (SBAC) as outlined in the contractual agreements (Agreements) listed below:

- Alcohol and Drug Services Outpatient Treatment Services (ADS program):
  - 7206000-19-030 for the period July 1, 2018 to June 30, 2019
  - 7206000-20-030 for the period July 1, 2019 to June 30, 2020

This agreed-upon procedure engagement was conducted to assist the Department of Health Services (DHS) to a) assess SBAC's financial condition and compliance with the above Agreements and b) verify that monthly invoice claims submitted by SBAC are accurate and reasonable.

DHS' management is responsible for monitoring SBAC's compliance with the Agreements requirements. The sufficiency of the procedures is solely the responsibility of DHS' management. Consequently, we make no representation regarding the sufficiency of the procedures described as follows either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the Agreements referred above and is not intended to pertain to any other agreements of DHS or SBAC.

The procedures that we performed and our findings are as follows:

1. Internal Controls – We inspected SBAC's written internal control policies and procedures including purchasing, vendor payments, payroll, claim submissions, cost allocations, general ledger, and financial report preparation. We also inspected SBAC's written

procedures for clients' admission and release, program eligibility verification, and services provided for its programs listed in the Agreements.

Finding: We noted an exception concerning SBAC's internal control over invoice claiming process. See ATT 2 – *Current Findings and Recommendations*.

2. Financial Statements – We requested from SBAC its audit reports for years ended June 30, 2019 and 2020 to review and identify any concerns or issues that may require your attention.

Finding: The audits of SBAC's financial statements for the years ended June 30, 2019 and June 30, 2020 have not been completed by the end of our fieldwork. Based on our review of SBAC's audited financial statements for the year ended June 30, 2018 and unaudited trial balances for the years ended June 30, 2019 and 2020, we noted concerns regarding SBAC's financial condition. See ATT 2 – *Current Findings and Recommendations*.

3. Claim Submissions – We inspected SBAC's monthly invoice claims for April 2019, June 2019, March 2020, and June 2020. We haphazardly selected and tested total 30 client files from the selected months.

Finding: We noted several exceptions from our testing including missing client files, lack of or insufficient supporting documentation, and inaccurate invoice claiming. See ATT 1 – *Schedule of Amounts Budgeted, Claimed, and Questioned* and ATT 2 – *Current Findings and Recommendations*.

4. General Ledger – We reviewed SBAC's trial balance as of June 30, 2019 and 2020 and noted SBAC separately tracked its financial activities for ADS program. Based on our review of the Agreements, SBAC was reimbursed fee for service at negotiated rates. Therefore, we did not trace SBAC's expenditures to its general ledger.

Finding: We did not note any exceptions as a result of this procedure.

5. Cost Allocations – Based on our review of the Agreements, SBAC was reimbursed based on fee for service at negotiated rate; therefore, cost allocation is not relevant for this engagement. As such, we did not perform any further procedures.

6. Funding Sources - We made inquiries to SBAC's management to identify any funding sources other than DHS for its programs. We inspected SBAC's general ledger and invoice claims for April 2019, June 2019, March 2020, and June 2020 to identify any inappropriate or duplicated charges.

Finding: We did not note any exceptions as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We were not engaged to, and did not perform an audit or examination, or review, the objectives of which would be the expression of an opinion or conclusion, respectively, on SBAC's financial statements or schedules, or internal controls, or compliance with the Agreements, or the results of the agreed-upon procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the Agreements and does not extend to any other program administered by DHS.

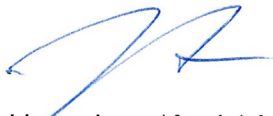
The projected questioned costs presented in ATT 2 – *Findings and Recommendations*, ATT 1 – *Schedule of Amount Budgeted, Claimed, and Questioned* are extrapolated based on our testing with the assumption that the same average error rate applied to each invoice in the population for the entire period of this agreed-upon procedures. Had we tested additional invoices, the projected questioned and disallowed costs would likely be changed.

DHS' management responses to the findings identified during our engagement are described in ATT 2 – *Findings and Recommendations*. We did not perform procedures to validate DHS' management responses to the findings and, accordingly, we do not express an opinion on the responses to the findings.

This report is intended solely for the use of the Sacramento County Board of Supervisors, those charged with governance, Sacramento County Audit Committee, Sacramento County Executive, and DHS' management. It is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

BEN LAMERA  
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, CPA  
Audit Manager

Enclosures:

ATT 1 – *Schedule of Amounts Budgeted, Claimed, and Questioned*  
ATT 2 – *Current Findings and Recommendations*

County of Sacramento  
 Department of Health Services (DHS)  
 Sobriety Brings A Change (SBAC)  
 Fiscal Monitoring Agreed-Upon Procedures  
 Schedule of Amounts Budgeted, Claimed, and Questioned  
 For the Period July 1, 2018 to June 30, 2020

<u>Contract/Budget Period</u>	<u>Contract Budget</u>	<u>A Total Amount Claimed</u>	<u>B Total Amount Tested</u>	<u>C Questioned<sup>(1)</sup> Costs</u>	<u>D = C/B % of Questioned Costs</u>
<b>7206000-19-030</b>					
From July 1, 2018 to June 30, 2019	\$289,133.00	199,801.54	4,608.36	2,300.29	49.92%
				Projected Questioned Costs ((A-B) x D)	
				<u>97,440.44</u>	
				<b><u>\$ 99,740.73</u></b>	
<b>7206000-20-030</b>					
From July 1, 2019 to June 30, 2020	\$ 421,121.00	212,648.04	5,110.36	1,441.36	28.20%
				Projected Questioned Costs ((A-B) x D)	
				<u>58,525.63</u>	
				<b><u>\$ 59,966.99</u></b>	
				<b><u>\$ 159,707.72</u></b>	

<sup>(1)</sup> Questioned costs represent unsubstantiated invoice claim amounts due to lack of or insufficient supporting documentation during our testing of client files. See Finding #3 of ATT 2.

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## 1. Internal Controls

### **Condition**

We noted the policies and procedures for processing claims for Sobriety Brings A Change (SBAC) did not require a secondary review prior to submission of the claims to County of Sacramento Department of Health Services (DHS) to ensure that the claims are prepared accurately and supported by adequate documentation. In addition, during our testing of sample client files, we noted numerous claiming errors and claims not supported by adequate documentation. See Finding #3.

### **Criteria**

SBAC should maintain sufficient internal controls over the invoice claiming process to ensure monthly invoice claims submitted to DHS are accurately prepared and adequately supported.

### **Effect**

By not maintaining adequate internal controls over the invoice claiming process, SBAC's monthly invoice claims contained numerous claiming errors and were not supported by adequate documentation resulting in significant amounts of questioned costs as described in Finding #3.

### **Recommendation**

We recommend SBAC strengthen its internal controls over the invoice claiming process to ensure monthly invoice claims submitted to DHS are accurately prepared and adequately supported. This can be accomplished by utilizing a checklist and secondary review of claims prior to submission to DHS.

### **DHS Management's Response**

DHS concurs with the finding. SBAC has employed a new staff that will be responsible for the fiscal components of SBAC. This will include revising policies to ensure fiscal operations are reviewed and completed by multiple staff in the review process. SBAC has created an invoice checklist and has implemented this recommendation.

## 2. Financial Statements

### **Condition**

We requested SBAC to provide its audited financial statements for fiscal years ended June 30, 2019 and 2020. However, the audits of those financial statements were not completed by the end of our fieldwork.

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In addition, based on our review of SBAC's audited financial statements for SBAC's fiscal year ended June 30, 2018, we noted SBAC had a net deficit in the amount of \$120,488.00 (\$71,086.00 total net assets and \$191,534.00 total current liabilities) as of June 30, 2018. Footnotes of the audited financial statements disclosed: a) during the year ended June 30, 2018, SBAC borrowed money from its Executive Director and Officers in multiple unsecured, non-interest bearing notes payable in the amount of \$45,000.00; \$32,000.00 of the notes payable was repaid during the same period and the balance of notes payable due to the related parties at June 30, 2018 was \$13,000.00; and b) the current liabilities contained payroll taxes payable that were not timely remitted, raising substantial doubt about SBAC's ability to continue as a going concern.

Furthermore, based on our review of unaudited trial balances for SBAC's fiscal years ended June 30, 2019 and 2020, we noted net deficits in the amount of \$119,880.92 and \$142,621.66 as of June 30, 2019 and 2020, respectively.

**Criteria**

Per Exhibit D, Section VI of the agreements between SBAC and DHS (Agreements), SBAC is required to submit audited financial statements due six months following the end of SBAC's fiscal year.

In addition, SBAC should maintain a sound financial condition to carry out its operation without any interruptions to its contractually required services.

**Effect**

SBAC is not compliant with audit requirements per the Agreements. In addition, without improving its financial condition, SBAC may not be able to carry out its operation without any interruptions to its services and/or satisfy its contractual obligations.

**Recommendation**

We recommend SBAC contact DHS and provide the status and timeline for completion on the audit of financial statements for the fiscal years ended June 30, 2019 and 2020. SBAC should also request an audit due date extension and follow up with DHS monthly, at a minimum, until the issue is resolved.

We also recommend SBAC evaluate its current financial condition, establish an action plan to improve the condition, and submit the action plan to DHS.



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**DHS Management's Response**

DHS concurs with the finding. DHS will follow up with SBAC's contracted CPA accountant to obtain a concrete timeline of audit completion by the end of December 2021. In the meantime, SBAC will submit a request for an audit due date extension by the end of December 2021 and will provide monthly updates on the progress of the audit. DHS is also requesting SBAC to evaluate its current financial condition and provide an action plan outlining improvement by February 2022.

**3. Claim Submissions**

**Condition**

SBAC was reimbursed on a fee for service basis at negotiated rates for service hours/units spent for each client.

Of the 30 sample client files tested, we noted:

- a. Two client files were missing
- b. No proof of residence/eligibility was documented for 11 client files
- c. No or insufficient proof of services was documented for nine client files
- d. Service hours/units were not accurately reported for six client files

As a result, we noted questioned costs in the amounts of \$2,300.29 and \$1,441.36 for fiscal years ended June 30, 2019 and 2020, respectively.

We projected questioned costs for the entire population based on our sample testing error rates with the assumption that the same average error rate applied to the entire population. Based on our calculation, we noted total questioned costs in the amount of \$159,707.72 (\$99,740.73 and \$59,966.99 for the fiscal year ended June 30, 2019 and 2020, respectively). See Attachment I – *Schedule of Amounts Budgeted, Claimed, and Questioned*.

**Criteria**

Per Exhibit D, Section VIII of the Agreements, SBAC is required to "*maintain adequate client records on each individual client during the entire treatment episode that includes but not limited to diagnostic studies, records of client interviews, progress notes, and records of services provided by the various professional and paraprofessional personnel in sufficient detail to permit an evaluation of services.*" In addition, SBAC is also required to "*maintain complete service and financial records*

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*that clearly reflect the actual cost of and related fees and/or Drug Medi-Cal reimbursements received for each type of service for which payment is claimed. The client eligibility determination and the fee charged to, and collected from clients shall be also be reflected therein."*

**Effect**

SBAC is not compliant with provisions of the Agreements resulting in questioned costs as described above.

**Recommendation**

We recommend SBAC maintain adequate supporting documentation as required per the Agreements. In addition, we recommend SBAC contact DHS to resolve the questioned costs noted above. See our recommendation for Finding #1.

**DHS Management's Response**

DHS concurs with the finding. SBAC has hired additional staff to support the organization of the charts. SBAC reports that they are currently working to organize their archived records to allow for a seamless record request process. DHS will follow up during their midyear review around January 2022 through March 2022 to assess SBAC's archived record request process to ensure records are accessible for review.