

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
February 28, 2017
“*Communications Received and Filed*”

To: Board of Supervisors
From: Department of Finance
Subject: First 5 Sacramento Commission Contracts Review For The Period Of
July 1, 2015, Through June 30, 2016
Supervisorial
District(s): All
Contact: Joyce Renison, Assistant Auditor-Controller, 874-7248

RECOMMENDATION

Receive and file the attached agreed-upon procedures report, *First 5 Sacramento Commission Contracts Review* for the period of July 1, 2015, through June 30, 2016.

Respectively submitted,

Ben Lamera
Director of Finance

Attachments

ATT 1 - First 5 Sacramento Commission Contracts Review For The Period Of July 1, 2015,
Through June 30, 2016



COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE

AUDITOR - CONTROLLER

**County of Sacramento
Department of Health and Human Services
First 5 Sacramento Commission Contracts
Agreed-Upon Procedures
For the Period from July 1, 2015, through June 30, 2016**

County of Sacramento
Department of Health and Human Services
First 5 Sacramento Commission Contracts
Agreed-Upon Procedures
For the Period from July 1, 2015, through June 30, 2016

Audit Staff:

Hong Lun (Andy) Yu	Audit Manager
Coye E. Carter	Senior Auditor
Kyle Hammon	Auditor

County of Sacramento
Department of Health and Human Services
First 5 Sacramento Commission Contracts
Agreed-Upon Procedures
For the Period from July 1, 2015, through June 30, 2016

Table of Contents

Accountant’s Report on Applying Agreed-Upon Procedures	1
Schedule of Approved Budget and Expenditures Claimed – HEARTS for Kids Program	4
Schedule of Approved Budget, Expenditures Claimed, and Disallowed Costs – Smile Keepers Dental Health Program	5
Schedule of Approved Budget, Expenditures Claimed, and Disallowed Costs – Women, Infants, and Children (WIC) – Community Lactation Assistance (CLA) Project	6
Schedule of Disallowed Costs – Smile Keepers Dental Health Program and the Women, Infants, and Children (WIC) – Community Lactation Assistance (CLA) Project	7
Current Status of Previous Comments and Recommendations	8
Current Comments and Recommendations	9



Internal Services

Department of Finance

Auditor-Controller Division

Joyce Renison,
Assistant Auditor-Controller

County of Sacramento

Navdeep S. Gill,
County Executive

David Villanueva,
Chief Deputy County Executive

Ben Lamera,
Director of Finance

December 20, 2016

Sherri Z. Heller, Ed.D., Director
Department of Health and Human Services
7001-A East Parkway, Suite 1100
Sacramento, CA 95823

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

Dear Dr. Heller:

We have performed the procedures enumerated below, which were agreed to by you to assist the Department of Health and Human Services' (DHHS) compliance with DHHS' programs' (Programs) contract agreements with the First 5 Sacramento Commission (Commission) as listed below for the period from July 1, 2015, through June 30, 2016:

- HEARTS for Kids program, Contract Number 7205000-16/18-340R
- Smile Keepers Dental Health program, Contract Number 7207500-16/18-255R
- Women, Infants, and Children (WIC) program – Community Lactation Assistance (CLA) project, Contract Number 7201500-16/18-085R

DHHS' management is responsible for ensuring the Programs' compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of DHHS' management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the programs referred above and is not intended to pertain to any other programs of DHHS.

The procedures we performed and our findings were as followed:

- 1) Review of Operations – We obtained an understanding of the Programs' operations by making inquiries of the Programs' staff and management and reviewing organizational charts.

Finding: We did not note any exceptions as a result of our procedures.

- 2) Review of Internal Control – We reviewed the Programs’ internal control policies and procedures including purchasing, vendor payments, payroll, cost allocation, and claim submission.

Finding: We noted an exception related to the WIC – CLA project for calculating allocated employee expenditures incorrectly. See *Current Comments and Recommendations*.

- 3) Review of Claim Submission – We reviewed and recalculated all claim submissions to the Commission. We traced the claims to the general ledgers and budgets approved by the Commission. We also confirmed DHHS’ record of claim receipts to the Commission’s payment records.

Finding: We did not note any exceptions as a result of our procedures.

- 4) Review of Cost Allocation – We reviewed the Programs’ cost allocation methodology including the cost allocation worksheets and supporting data.

Finding: We noted an allocated cost calculation error in the WIC – CLA project. See *Current Comments and Recommendations*.

- 5) Review of Payroll Expenditures – We obtained payroll expenditure ledger detail for the Programs, and scanned the transaction detail to identify any unusual items. We selected 15 salary expenditure transactions from each of the Programs. We recalculated them based on payroll registers, timesheets, activity report, and cost allocation methodology. We traced these transactions to the claim submission and recalculated the related benefit claims. We tested whether these expenditures were in compliance with the Commission’s contract provision.

Finding: We did not note any exceptions as a result of our procedures.

- 6) Review of Non-Payroll Expenditures – We obtained expenditure ledger detail for the Programs, and scanned the transaction detail to identify any unusual items. We selected 25 non-payroll expenditure transactions from each of the Programs. We traced them to the supporting documentation such as vendor invoices, receipts, journal entries, and cost allocation calculation. We tested whether these expenditures were in compliance with the Commission’s contract provision.

Finding: We noted an exception regarding liability and workers’ compensation insurance expenditures claimed. See *Current Comments and Recommendations*.

- 7) Review of Subcontractor Monitoring – We reviewed the Programs’ subcontractor monitoring policies and procedures. We also visited one subcontractor of HEARTS for Kids program and tested 12 transactions of the subcontractor’s claims to the program. We did not visit subcontractors of WIC – CLA project but tested 12 transactions of one subcontractor’s claims to the project.

Finding: We did not note any exceptions as a result of our procedures.

- 8) Review of status and progress reports – We reviewed the Programs’ status and progress reports submitted to the Commission.

Finding: We did not note any exceptions as a result of our procedures.

Because the above procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express opinions on claim reports, financial schedules, internal control, compliance, and operation of the Programs. Had we performed additional procedures or had we made an examination in accordance with generally accepted auditing standards, other matters might have come to our attention that would be reported to you.

DHHS’ management’s response to the findings identified during our engagement is described in *Current Comments and Recommendations* section of this report. We did not perform procedures to validate DHHS’ management’s response to the findings and, accordingly, we do not express an opinion on the response to the findings.

This report is intended solely for the information and use of Sacramento County Board of Supervisors, County Executive, DHHS’ management, and the Commission and is not intended to be and should not be used by anyone other than those specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.
Audit Manager

County of Sacramento
 Department of Health and Human Services
 First 5 Sacramento Commission Contracts
 Agreed-Upon Procedures
 Schedule of Approved Budget, Expenditures Claimed, and Disallowed Costs
 HEARTS for Kids Program
 For the Period from July 1, 2015, through June 30, 2016

	<u>Approved Budget</u>	<u>Expenditures Claimed</u>	<u>Disallowed Costs</u>
Costs			
Personnel Costs	\$ 249,062	202,347	
Other Operating Costs	10,000	7,845 ¹	
Subcontractors Costs	93,310	90,365	
	<hr/>	<hr/>	<hr/>
Total Costs	<u>\$ 352,372</u>	<u>300,557</u>	<u></u>

¹ Included \$6,914 accrued audit costs.

See Accountant's Report on Applying Agreed-Upon Procedures

County of Sacramento
 Department of Health and Human Services
 First 5 Sacramento Commission Contracts
 Agreed-Upon Procedures
 Schedule of Approved Budget, Expenditures Claimed, and Disallowed Costs
 Smile Keepers Dental Health Program
 For the Period from July 1, 2015, through June 30, 2016

	<u>Approved Budget</u>	<u>Expenditures Claimed</u>	<u>Disallowed Costs</u>
Costs			
Personnel Costs	\$ 388,109	330,479	8,467
Program Operating Costs	131,906	104,329	
Administrative Costs ¹	116,349	114,044 ²	2,924
Indirect Costs	63,636	37,718	
	<u>700,000</u>	<u>586,570</u>	<u>11,391</u>
Total Costs	<u>\$ 700,000</u>	<u>586,570</u>	<u>11,391</u>

¹ Non-indirect costs.

² Included \$13,463 accrued audit costs.

See Accountant's Report on Applying Agreed-Upon Procedures

County of Sacramento
 Department of Health and Human Services
 First 5 Sacramento Commission Contracts
 Agreed-Upon Procedures
 Schedule of Approved Budget, Expenditures Claimed, and Disallowed Costs
 Women, Infants, and Children (WIC)-Community Lactation Assistance (CLA) Project
 For the Period from July 1, 2015, through June 30, 2016

	<u>Approved Budget</u>	<u>Expenditures Claimed</u>	<u>Disallowed Costs</u>
Costs			
Personnel Costs	\$ 222,365	197,450	3,615
Operating Costs ¹	640,494	629,936	
Administrative Costs ²	20,137	17,323 ³	
Indirect Costs	17,730	15,715	
Total Costs	<u>\$ 900,726</u>	<u>860,424</u>	<u>3,615</u>

¹ Included \$156,992 in budgeted and expended subcontractor costs.

² Non-indirect costs.

³ Included \$17,323 accrued audit costs.

See Accountant's Report on Applying Agreed-Upon Procedures

County of Sacramento
 Department of Health and Human Services
 First 5 Sacramento Commission Contracts
 Agreed-Upon Procedures
 Schedule of Disallowed Costs
 Smile Keepers Dental Health Program and the WIC - CLA Project
 For the Period from July 1, 2015, through June 30, 2016

	Smile Keepers Dental Health	WIC - CLA	Total
Disallowed Costs			
Liability Insurance Costs	\$ 6,626	2,103	8,729
Workers' Compensation Costs	4,765	1,512	6,277
Total Disallowed Costs	<u>\$ 11,391</u>	<u>3,615</u>	<u>15,006</u>

See Accountant's Report on Applying Agreed-Upon Procedures

County of Sacramento
Department of Health and Human Services
First 5 Sacramento Commission Contracts
Agreed-Upon Procedures
Current Status of Previous Comments and Recommendations
For the Period from July 1, 2015, through June 30, 2016

**FROM THE PRIOR AGREED-UPON PROCEDURES REPORT FOR THE PERIOD OF
JULY 1, 2014 THROUGH JUNE 30, 2016, DATED DECEMBER 7, 2015**

No previous comments and recommendations were reported.

County of Sacramento
Department of Health and Human Services
First 5 Sacramento Commission Contracts
Agreed-Upon Procedures
Current Comments and Recommendations
For the Period from July 1, 2015, through June 30, 2016

CURRENT COMMENTS

1) Liability and Workers' Compensation Insurance Expenditures

Comment

During our review of the Department of Health and Human Services' (DHHS) expenditures claimed for the Smile Keepers Dental Health Program (Smile Keepers) and the Women, Infants, and Children (WIC) – Community Lactation Assistance (CLA) Project (WIC – CLA), we noted disallowed liability and workers' compensation insurance expenditures claimed to the First 5 Sacramento Commission (Commission) in the total amount of \$15,006. The disallowed costs claimed for Smile Keepers and WIC – CLA programs are \$11,391 and \$3,615, respectively. The disallowed costs for Smile Keepers are comprised of \$6,626 in liability insurance costs and \$4,765 in workers' compensation insurance costs. The disallowed costs claimed for WIC – CLA are comprised of \$2,103 in liability insurance costs and \$1,512 in workers' compensation insurance costs.

Per section #25 (Insurance) of Smile Keepers' and WIC – CLA's contractual agreements, "Each party, at its sole cost and expense, shall carry insurance or self-insure its activities in connection with this Agreement, and obtain, keep in force and maintain, insurance or equivalent programs of self-insurance, for general liability, professional liability, workers' compensation, and business automobile liability adequate to cover its potential liabilities hereunder. Each party agrees to provide the other thirty (30) days advance written notice of any cancellation, termination or lapse of any of the insurance or self-insurance coverages." DHHS was unaware that liability and workers' compensation insurance costs were not claimable.

Recommendation

We recommend DHHS not claim liability and workers' compensation insurance expenditures per the contract agreements. We further recommend DHHS refund the disallowed expenditures to the Commission in the amount of \$15,006.

DHHS' Management's Response

DHHS does not concur with this audit finding. DHHS discussed with First 5 Sacramento Commission the discrepancy of a provision not allowing the liability and workers' compensation insurance in the executed contract but were allowed as a line item expense included in the approved budget. DHHS requested from First 5 Sacramento Commission to allow the payment of these expenditures as approved in the budget. First 5 Sacramento Commission agreed and will waive the need to repay the liability and workers' compensation insurance expenditures for fiscal years 2015-2016 and 2016-2017 as these expenditures were allowed in accordance with the Office of Management and Budget (OMB) regulations.

County of Sacramento
Department of Health and Human Services
First 5 Sacramento Commission Contracts
Agreed-Upon Procedures
Current Comments and Recommendations
For the Period from July 1, 2015, through June 30, 2016

CURRENT COMMENTS
(Continued)

DHHS agrees that for fiscal year 2017-2018, First 5 Sacramento Commission will request budget revisions to abide by the provision of the contract with regards to disallowing the insurance liability and workers' compensation expenditures.

2) Salary and Benefit Allocation Percentage (WIC - CLA)

Comment

During our review of DHHS' payroll expenditures for the WIC – CLA, we noted a discrepancy between the salary and benefit allocation percentage applied to WIC – CLA's 4th quarter claim and the allocation percentage per DHHS' time study for one of its employees. DHHS used an allocation percentage of 94.4443% per its allocation calculation instead of the 96.4443% per its time study (2% salary and benefit under-claim). Allocation percentages used to submit salary and benefit expenditures to the Commission should be accurate and agree to the allocation percentages calculated from employee time studies. The cause of the error appears to be attributed to a formula used to calculate allocated salary and benefit costs. Although no questioned or disallowed costs were attributed to the error, future errors could lead to reporting errors and over-claimed expenditures.

Recommendation

We recommend DHHS review its internal controls to ensure the allocation percentages claimed to the Commission for salaries and benefits expenditures are accurate and agrees to the allocation percentages calculated from its time studies. Any differences between allocation percentage calculations and the time studies should be researched and resolved in a timely manner.

DHHS' Management's Response

DHHS concurs with this audit finding. The finding was due to a typographical error. Fiscal staff will continue with efforts to thoroughly review time study allocations to ensure accuracy of the salary and benefit allocation percentages used for invoice claiming.