

COUNTY OF SACRAMENTO

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

INTERNAL AUDIT REPORT WELLSPACE HEALTH FISCAL MONITORING AGREED-UPON PROCEDURES

DEPARTMENT OF HUMAN ASSISTANCE



Audit Committee Submittal Date: 04/17/2020

SUMMARY

Background

This fiscal monitoring Agreed-Upon Procedures is originally requested by Department of Health Services (DHS) as WellSpace Health (WellSpace) is assessed as one of the high risk subrecipients based on DHS's subrecipient risk assessment. For the purpose of cost effectiveness and efficiency, Department of Child, Family, and Adult Services (DCFAS) and Department of Human Assistance (DHA) who also have WellSpace as a subrecipient, collaborated with DHS and participated to this fiscal monitoring engagement with Department of Finance Internal Audit Unit.

Audit Objective

To assist DHA to assess WellSpace's financial condition and compliance with the Agreements between DHA and WellSpace.

Summary

Based on our agreed-upon procedures performed, we noted some concerns regarding subcontracting and insufficient supporting documentation for claimed expenditures.



County of Sacramento

February 21, 2020

Ann Edwards, Director
Department of Human Assistance
1825 Bell Street, Suite 200
Sacramento, CA 95825

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

Dear Ms. Edwards:

We have performed the procedures enumerated below, which were requested and were agreed to by you regarding WellSpace Health (WellSpace)'s fiscal compliance as outlined in the contractual agreements (Agreements) listed below:

- Cost Reimbursement Agreement number DHA-WS-01-18: Interim Care Program (ICP) for the period from July 1, 2017 to June 30, 2018
- Cost Reimbursement Agreement number DHA-WS-01-19: ICP for the period from July 1, 2018 to June 30, 2019

This agreed-upon procedures engagement was conducted to assist the Department of Human Assistance (DHA): a) to assess WellSpace's financial condition and compliance with the above Agreements and b) to verify that monthly invoice claims submitted by WellSpace are accurate and reasonable.

DHA's management is responsible for monitoring WellSpace's compliance of the Agreements' requirements. The sufficiency of the procedures is solely the responsibility of DHA's management. Consequently, we make no representation regarding the sufficiency of the procedures described on page 2 of this report 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 DHA or WellSpace.

The procedures we performed for the Agreements and our findings were as follows:

- 1) Internal Control – We reviewed WellSpace's written internal control policies and procedures including purchasing, vendor payments, payroll, claim submissions, cost allocations, general ledger, and financial report preparation. We also reviewed

WellSpace's written procedures for clients' admission and release, program eligibility verification, and services provided for its ICP.

Finding: We did not note any exceptions from the review of WellSpace's written internal control policies and procedures.

- 2) Financial Statements – We reviewed WellSpace's audit reports for years ended June 30, 2017 and 2018 to identify any concerns or issues that require your attention.

Finding: We did not note any exceptions from our review of WellSpace's audit reports.

- 3) Claim Submission – We obtained and reviewed WellSpace's monthly invoice claims for: September 2017, June 2018, November 2018, and December 2018. Based on the review of the documentation for the selected month and inquiries to WellSpace's staff, we noted that WellSpace subcontracted with another organization, Volunteers of America (VOA) for ICP and reimbursed VOA for the entire claim amount of monthly invoice to DHA. Therefore, we obtained the supporting documentation for the claimed expenditures from VOA and tested the entire expenditure transactions for the selected month claims referred above.

Finding: We noted some exceptions resulted in questioned costs of invoice claiming. See Attachment I, *Findings and Recommendations* and Schedule I, *Schedule of Questioned Costs*.

- 4) General Ledger – We traced VOA's monthly invoice claims for September 2017, June 2018, November 2018, and December 2018 to its general ledger.

Finding: We did not note any exceptions from this procedures.

- 5) Cost Allocations – We reviewed WellSpace's and VOA's cost allocation policies and procedures to identify any concerns or issues that required your attention. We tested the transactions listed at Item #3 above to identify any issues related to cost allocations.

Finding: We noted some exceptions. See Attachment I, *Findings and Recommendations*.

- 6) Funding Sources – We made inquiries to the management of WellSpace as well as VOA to identify any funding sources other than DHA for its programs. We also reviewed VOA's general ledger and invoice claims for September 2017, June 2018, November 2018, and December 2018 to identify any inappropriate or duplicated charges.

Finding: We did not note any duplicate charges.

- 7) Subcontract Agreement – We reviewed supporting documentation of monthly invoice claims submitted by VOA and made inquiries to WellSpace's management.

Finding: We noted WellSpace's noncompliance with the Agreements regarding subcontracting. See Attachment I, *Findings and Recommendations* and Schedule I, *Schedule of Questioned Costs*.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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, on WellSpace's financial statements or schedules, internal controls, 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.

The projected questioned costs presented in Schedule I, *Schedule of Questioned Costs* 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 performed additional procedures, the projected questioned costs may be changed.

DHA's management responses to the findings identified during our engagement are described in Attachment I, *Findings and Recommendations*. We did not perform procedures to validate DHA's 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 information and use of the Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, and DHA's management. It is not intended to be, and should not be, used by anyone other than these 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

Enclosures

Attachment I: *Findings and Recommendations*
Schedule I: *Schedule of Questioned Costs*

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Findings and Recommendations
For the Period from July 1, 2017 to June 30, 2019

1. Subcontract Agreement

According to the Agreement between DHA and WellSpace Section **XXV. SUBCONTRACTS, ASSIGNMENT**, “Contractor shall obtain prior written approval from County before subcontracting any of the services delivered under this agreement.” In addition, “Contractor must provide County with a copy of the executed agreements between Contractor and all subcontractors used to provide services for this agreement, outlining responsibilities, budget, and all other terms of the Agreement to which the subcontractor must conform.”

Based on our inquiries to WellSpace’s Staff and review of documentation, WellSpace subcontracted with another organization, Volunteers of America (VOA) to administer Interim Care Program (ICP) for the period from July 1, 2017 to June 30, 2019 and reimbursed VOA for the entire amount claimed to DHA by WellSpace. The total claimed amount by WellSpace to DHA was \$118,614 and \$118,047 during the period ended June 30, 2018 and June 30, 2019, respectively.

We obtained and reviewed an agreement between WellSpace and VOA for the period from January 1, 2017 to December 31, 2017. However, there were no other agreements, nor agreement renewals for the period from January 1, 2018 to June 30, 2019. In addition, based on inquiries to DHA and WellSpace staff, there was no evidence that WellSpace obtained written approval from DHA prior to subcontracting with VOA nor a copy of the subcontract agreement between WellSpace and VOA for the period from July 1, 2017 to June 30, 2019 was provided to DHA.

As described above, WellSpace is not compliant with the provisions of the Agreements with DHA. In addition, by subcontracting with VOA without legally binding agreement, WellSpace imposes itself, as well as the County, to potential liability when any issues occur regarding program administration, invoice claiming, or other matters. As such, we consider the entire claimed amounts of \$118,614 and \$118,047 during the period ended June 30, 2018 and June 30, 2019, respectively, as questioned costs. These amounts include all questioned costs noted in Finding #2.

It appeared that WellSpace did not thoroughly understand the provisions of the Agreements.

Recommendation

We recommend DHA contact WellSpace to rectify this issue and resolve the questioned costs noted above. One way to rectify this issue would be requesting WellSpace to execute a new subcontract agreement or an amendment to the original subcontract agreement with VOA,

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under the supervision and approval of DHA to ensure that the subcontract agreement is within perimeter of the Agreement between DHA and WellSpace.

DHA's Management Response

DHA acknowledges the finding. WellSpace was not aware of the contract provision requiring them to obtain written approval prior to subcontracting any of the services under the agreement.

The term of the subcontract between WellSpace and Volunteers of America (VOA) was for the period of January 1, 2017 to December 31, 2017, which falls within DHA's Fiscal Year (FY) 2017-18 contract. The subcontract included a provision that the term "shall be renewable contingent upon funding of the Interim Care Program". From January 2018 through December 2019, WellSpace's Interim Care Program was still receiving funding from DHA's FY 2018-19 and 2019-20 contracts; therefore, the subcontract between WellSpace and VOA automatically renewed.

However, WellSpace now understands the terms of the agreement and no longer subcontracts the services to VOA effective January 1, 2020.

2. Claim Submission

According to the Agreements between DHA and WellSpace (the Agreements), Exhibit C, *"County will only provide reimbursement for actual costs as detailed on the Electronic Claim Form (ECF). . . . A cost allocation plan must be pre-approved for any indirect or overhead cost. . . . Contractor shall keep documentation to substantiate all charges for line items claimed on the ECF."*

WellSpace subcontracted with VOA to administer ICP and reimbursed VOA for the entire budget amount of the Agreements as described in Finding #1. As such, we tested VOA's ICP invoice claims submitted to WellSpace for the sample months: September 2017, June 2018, November 2018, and December 2018.

Based on our review, we noted that:

- a. VOA claimed benefit costs based on allocated cost at estimated percent to total salary expense, but not actual costs for ICP. Although VOA provided the justification for the benefit allocation percentage, the allocation was not formally approved by DHA or supported by sufficient documentation.
- b. VOA did not provide supporting documentation for administrative salaries and wages for all four months tested and office supplies expenses claimed as part of program expenses for September 2017.

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- c. VOA claimed liability insurance as part of program expenses during November and December 2018. Although insurance cost allocation schedules were provided by VOA, other supporting documentation such as invoice and/or declaration were requested but not provided by VOA.

As a result, we noted the following questioned costs:

Questioned Costs Detail:

| Expense Description | Fiscal Year 17/18 | | | Fiscal Year 18/19 | | |
|---|-------------------|----------|--------------|-------------------|--------------|--------------|
| | Sept 17 | Jun 18 | Total | Nov 18 | Dec 18 | Total |
| Direct Benefits ⁽ⁱ⁾ | \$ 781 | 1 | 782 | 928 | 746 | 1,674 |
| Administrative Salaries & Wages ⁽ⁱⁱ⁾ | 983 | | 983 | 988 | 989 | 1,977 |
| Administrative Benefits ⁽ⁱ⁾ | 305 | | 305 | 306 | 307 | 613 |
| Total Questioned Salaries & Benefit | 2,069 | 1 | 2,070 | 2,222 | 2,042 | 4,264 |
| Office Supplies ⁽ⁱⁱⁱ⁾ | 30 | | 30 | | | |
| Liability Insurance ⁽ⁱⁱⁱ⁾ | | | | 320 | 320 | 640 |
| Total Questioned Services & Supplies | 30 | | 30 | 320 | 320 | 640 |
| Total Questioned Costs | \$ 2,099 | 1 | 2,100 | 2,542 | 2,362 | 4,904 |

- (i) See item a above.
 (ii) See item b above.
 (iii) See item c above.

All questioned costs of this finding have been included in the questioned costs noted in Finding #1 in the amount of \$118,614 and \$118,047 during the period ended June 30, 2018 and June 30, 2019, respectively.

Our testing result indicated that WellSpace as well as VOA did not comply with the provisions of the Agreements.

It appeared that WellSpace's management failed to understand provisions of the Agreements and did not properly monitor fiscal activities of VOA.

Recommendation

We recommend DHA obtain and review the supporting documentation for the invoice claims submitted by WellSpace periodically going forward to ensure that WellSpace is in compliance with provisions of the Agreements.

As described in Finding #1, we recommend DHA contact WellSpace to develop a resolution to resolve the reported questioned costs.

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DHA's Management Response

DHA acknowledges the finding and will work with WellSpace in resolving the questioned costs. Through engagement to resolve the questioned costs, WellSpace has notified DHA that they no longer subcontract the services in the agreement effective January 1, 2020. DHA will work with WellSpace to ensure that costs claimed going forward are in compliance with the provisions of the agreement. In addition, DHA will validate the monthly Electronic Claim Forms by obtaining and reviewing all supporting documentations for the invoice claims.

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 Schedule of Questioned Costs
 For the Period from July 1, 2017 to June 30, 2019

For the Period from July 1, 2017 to June 30, 2018

| Budget Items | <u>Budgeted Amount</u> ⁽ⁱ⁾ | <u>Actual Claim Amount</u> ⁽ⁱⁱ⁾ | <u>Questioned Costs</u> ⁽ⁱⁱⁱ⁾ |
|--|--|---|---|
| Salaries and Benefits ^(iv) | | | |
| Salaries and Wages | \$ 44,268 | 44,268 | 44,268 |
| Benefits | 13,212 | 13,212 | 13,212 |
| Subtotal Salaries and Benefits | 57,480 | 57,480 | 57,480 |
| Service and Supply | | | |
| Food & Beverage | 59,634 | 59,634 | 59,634 |
| Program Expenses | 1,500 | 1,500 | 1,500 |
| Subtotal Service and Supplies | 61,134 | 61,134 | 61,134 |
| Total | \$ 118,614 | 118,614 | 118,614 |

For the Period from July 1, 2018 to June 30, 2019

| Budget Items | <u>Budgeted Amount</u> ⁽ⁱ⁾ | <u>Actual Claim Amount</u> ⁽ⁱⁱ⁾ | <u>Questioned Costs</u> ⁽ⁱⁱⁱ⁾ |
|--|--|---|---|
| Salaries and Benefits ^(iv) | | | |
| Salaries and Wages | \$ 40,575 | 40,366 | 40,366 |
| Benefits | 12,173 | 12,173 | 12,173 |
| Subtotal Salaries and Benefits | 52,748 | 52,539 | 52,539 |
| Service and Supply | | | |
| Food & Beverage | 59,866 | 59,508 | 59,508 |
| Program Expenses | 6,000 | 6,000 | 6,000 |
| Subtotal Service and Supplies | 65,866 | 65,508 | 65,508 |
| Total | \$ 118,614 | 118,047 | 118,047 |

(i) Budgeted Amount column represents amounts of the annual budget set by the contractual agreement between Department of Human Assistance (DHA) and WellSpace Health (WellSpace) during the periods under review.

(ii) Actual Claim Amount column represents the amounts claimed for each budget category by WellSpace during the periods under review.

(iii) The entire amounts claimed by WellSpace are questioned due to the fact that WellSpace subcontracted with Volunteers of America (VOA) to administrate Interim Care Program (ICP) without prior approval from DHA as required by the Agreements between DHA and WellSpace and WellSpace did not have legally binding contract throughout the Agreement periods under review. These amounts include questioned costs identified during our testing of expenditure claimed. For consideration of questioned costs, see Finding #1 and 2 in Attachment I, *Findings and Recommendations*.

(iv) The amounts include administrative salaries and benefits (indirect costs).