

COUNTY OF SACRAMENTO

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

INTERNAL AUDIT REPORT

**DEPARTMENT OF HEALTH SERVICES
FIRST 5 SACRAMENTO COMMISSION
AGREEMENT**

PERFORMANCE AUDIT

**FOR THE PERIOD JULY 1, 2022
TO JUNE 30, 2023**



Audit Committee Submittal Date: 03/21/2024

SUMMARY

Background

The First 5 Sacramento Commission has a contractual agreement (Agreement) with the County of Sacramento (County) Department of Health Services (DHS) for Women, Infants, and Children Program Community Lactation Assistance Project (Project), to provide breastfeeding supportive services to children ages 5 and under residing in the County. The Agreement requires an audit of the Project each fiscal year. Accordingly, DHS requested the County Department of Finance to perform the performance audit for the Project.

Audit Objective

The audit was conducted to examine the Project costs and verify these costs were in compliance with the Agreement and related internal controls for the period July 1, 2022 to June 30, 2023.

Summary

Based on our audit, Project costs complied with the Agreement for the period July 1, 2022 to June 30, 2023 and DHS has adequate internal controls to ensure Project costs are in compliance with the Agreement except for monitoring of subcontractor expenditure claims.

Department of Finance

Chad Rinde
Director

**County of Sacramento****Divisions**

Auditor-Controller
Consolidated Utilities Billing &
Service
Investments
Revenue Recovery
Tax Collection & Licensing
Treasury

February 27, 2024

Mr. Timothy Lutz, Director
Department of Health Services
7001-A East Parkway, Suite 1100
Sacramento, CA 95823

Dear Mr. Lutz:

We have audited the County of Sacramento (County) Department of Health Services (DHS) Women, Infants, and Children Program, Community Lactation Assistance Project (Project) funded by First 5 Sacramento Commission (Commission)'s contractual agreement (Agreement) for the period July 1, 2022 to June 30, 2023, contract Number 7201500-22/24-085R A1.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was conducted to examine Project costs and verify that these costs were in compliance with the Agreement and related internal controls for the period July 1, 2022 to June 30, 2023.

DHS' management is responsible for design, implementation, and maintenance of effective internal controls to ensure the Project's compliance with the Agreement. This report is applicable solely to the Project and Agreement referred to above and is not intended to pertain to any of DHS' other operations, procedures, or compliance with laws and regulations.

The scope of our audit includes all financial transactions for the Project for the period July 1, 2022 to June 30, 2023.

The audit methodology utilized to conduct the performance audit included:

1. Understandability of the Agreement – We evaluated the Agreement to understand the Agreement's financial compliance requirement.

2. Operations – We inquired of the Project’s staff and management and inspected the Project’s organizational chart to identify any conflict of interest and non-compliance with the Agreement.
3. Internal Controls – We evaluated DHS’ internal controls over the Project. We also obtained the Project’s written internal control policies and procedures for purchasing, vendor payments, and claim submission. We compared the policies and procedures to the results of our procedure numbers 5, 6, 7, and 8.
4. Cost Allocation –We obtained the Project’s written cost allocation policy, procedures, and methodology including the cost allocation worksheets and supporting data. We compared the policy, procedure, and methodology to the results of our procedure numbers 6, 7, and 8.
5. Claim Submission – We inspected and recalculated all claim forms submitted to the Commission. We traced the claim forms to DHS’ general ledgers and budgets approved by the Commission. We also confirmed DHS’ record of claim receipts to the Commission’s payment records. We tested a sample of claims as described at our procedures number 6, 7, and 8.
6. Payroll Expenditures – Payroll expenditures were claimed only for DHS’ subcontractor/consultants for the Project for the period July 1, 2022 to June 30, 2023. Therefore, we tested payroll expenditures as part of the procedure #8 below.
7. Non-Payroll Expenditures – Non-payroll expenditure transactions from the Project other than those for the subcontractor were operating costs for office supplies and audit only. We tested the Project’s all operating costs. We traced the operating cost to the supporting documentation such as vendor invoices, receipts, journal entries.
8. Subcontractor Monitoring – We reviewed DHS’ subcontractor monitoring process to identify any non-compliance with its subcontractor monitoring guideline.

We tested a total of \$34,236 of \$215,459 (16%) of subcontractor expenses for compliance with the Agreements, applicable laws, regulations, and statutes.

Additionally, we noted that the Project had contracted with International Board Certified Lactation Consultants to provide lactation services. Accordingly, we obtained expenditure ledger details for lactation consultants and selected 25 lactation consultant expenditures from the fourth quarter and tested for compliance with the Agreement, applicable laws, and regulations. The selected sample size was \$16,611 of \$95,170 (17%) for the project’s lactation consultant expenditures in the fourth quarter of the period. Total lactation consultant expenditures claimed for the period was \$238,383.

9. Status and progress reports – We confirmed that all Project’s quarterly status and progress reports were submitted on time to the Commission.

Mr. Timothy Lutz, Director
February 27, 2024

In connection with this audit, there are certain disclosures that are necessary pursuant to GAGAS.

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair GAGAS' independence standards. Specifically, auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.

Although the Director of Finance is statutorily obligated to maintain the accounts of departments, districts, or funds that are held in the County Treasury, the staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility of the accounts and records being audited including approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.


Based on our audit, the Project costs complied with the Agreement for the period July 1, 2022 to June 30, 2023 and DHS has adequate internal controls to ensure the Project costs are in compliance with the Agreement except for monitoring of subrecipient expenditure claims. See ATT 1 - *Schedule of Amounts Budgeted, Claimed, Tested, Questioned, and Disallowed*, ATT 2 – *Current Findings and Recommendations*, and ATT 3 – *Current Status of Prior Recommendation*.

DHS' management responses to the findings identified during our engagement is described in ATT 2 – *Current 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 response to the findings.

This report is intended solely for the information and use of Sacramento County Board of Supervisors, Sacramento County Executives, Sacramento County Audit Committee, DHS' 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,

CHAD RINDE
DIRECTOR OF FINANCE



By: Tae-Young Kang, CPA
Audit Manager

Attachments:

ATT 1 – *Schedule of Amounts Budgeted, Claimed, Tested, Questioned, and Disallowed*
ATT 2 – *Current Findings and Recommendations*
ATT 3 – *Current Status of Prior Recommendation*

County of Sacramento
 Department of Health Services
 First 5 Sacramento Commission Contract
 Women, Infants, and Children (WIC) Program
 Community Lactation Assistance Project
 Performance Audit
 Schedule of Amounts Budgeted, Claimed, Tested, Questioned, and Disallowed
 For the Period July 1, 2022 to June 30, 2023

<u>Program Costs</u>	<u>Amount Budgeted</u>	<u>Amount Claimed</u>	<u>Amount Tested</u>	<u>Amount Questioned</u>	<u>Amount Disallowed</u>
Program Operating Costs	\$ 14,480	14,476 ¹⁾	13		
Subcontractors/Consultants	<u>462,654</u>	<u>453,842</u>	<u>50,847</u>	<u>544</u>	<u>863</u>
Total Costs	<u>\$ 477,134</u>	<u>463,318</u>	<u>50,860</u>	<u>544</u> ²⁾	<u>863</u> ³⁾

¹⁾ The amount includes \$14,463 in accrued audit costs.

²⁾ The amount represents inadequately supported indirect costs and translation services expenditures. See Finding #2 at ATT 2 - *Current Findings and Recommendations*.

³⁾ The amount represents over claimed salaries and benefit expenditures due to inadequate cost allocation. See Finding #2 at ATT 2 - *Current Findings and Recommendations*.

COUNTY OF SACRAMENTO
DEPARTMENT OF HEALTH SERVICES
FIRST 5 SACRAMENTO COMMISSION CONTRACT
WOMEN, INFANTS, AND CHILDREN PROGRAM
COMMUNITY LACTATION ASSISTANCE PROJECT
PERFORMANCE AUDIT
CURRENT FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023

1. Internal Controls Over Subcontractor Monitoring

Condition

Department of Health Services (DHS) performs risk assessment for federally funded subcontractors and maintains written policies and procedures for subcontractor monitoring for those subcontractors who are assessed as high risk from its risk assessment. But it did not maintain written policies and procedures for those subcontractors who are not assessed as high risk from its risk assessment or who do not receive federal funds.

DHS subcontracted with Community Resource Project, Inc. (CRP) for Women, Infant, and Children Program, Community Lactation Assistance Project (Project) which was approved by the First 5 Sacramento Commission (Commission). As the Project did not receive any federal funds and the Agreement did not require a subcontractor risk assessment, DHS did not perform a risk assessment for the Project.

During our testing of CRP's expenditures, we noted expenditures with inappropriate cost allocation and unsupported or insufficiently supported resulting in disallowed or questioned costs. It appears that DHS did not monitor CRP's program and fiscal activities in a consistent manner. See Finding #2.

Criteria

According to the Agreement between DHS and Commission (Agreement), Section 29, DHS is responsible for its subcontractors' performance and compliance with the Agreement. Accordingly, DHS should monitor CRP's program and fiscal activities in a consistent manner.

Effect

DHS and its subcontractor CRP did not comply with the Agreement. Also, see Finding #2.

Recommendation

We recommend DHS develop written policies and procedures for subcontractor monitoring for those subcontractors who are not subject to a risk assessment and monitor their program and fiscal activities accordingly in a consistent manner.

COUNTY OF SACRAMENTO
DEPARTMENT OF HEALTH SERVICES
FIRST 5 SACRAMENTO COMMISSION CONTRACT
WOMEN, INFANTS, AND CHILDREN (WIC) PROGRAM
COMMUNITY LACTATION ASSISTANCE PROJECT
PERFORMANCE AUDIT
CURRENT FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023

Management Response

At the end of FY 2022-23 claim period, DHS obtained staff to assist with reviewing CRP's invoices in detail. A review process was written and developed in October 2023. The review is completed monthly. It includes but is not limited to the following: the review of CRP staff' labor allocations, salaries claimed, re-calculation of CRP's allocations to ensure correctness, and review of operating expenses and indirect costs claimed. Discrepancies are communicated to CRP and resubmissions are requested as needed. DHS will review the current process of monitoring for subcontractors including those not subject to a risk assessment, and if needed, will update the process for uniformity. The department's current process includes reviews of the subcontractor's audited or reviewed financial statements, tax returns, and/or board minutes.

2. Subcontractor Expenditure Claims

Condition

During our review of DHS' subcontractor CRP's expenditure claims, we noted the following issues:

- a. CRP improperly allocated and charged all leave hours of its employees who work more than one program the Project rather than allocating the leave hours proportionally to each program based on worked hours. As a result, CRP's total direct salaries and benefits in the amount of \$863 was over claimed.
- b. CRP claimed translation services expenditures in the amount of \$525. Although the expenditures are allowable and supported by the invoice, they were not separately recorded under the Project's general ledger account. As such, we were not able to determine whether the amount was claimed duplicate to other funding sources.
- c. A portion of indirect costs claimed by CRP for June 2023 in the amount of \$19 was not sufficiently supported by CRP's general ledger and cost allocation calculation.

COUNTY OF SACRAMENTO
DEPARTMENT OF HEALTH SERVICES
FIRST 5 SACRAMENTO COMMISSION CONTRACT
WOMEN, INFANTS, AND CHILDREN (WIC) PROGRAM
COMMUNITY LACTATION ASSISTANCE PROJECT
PERFORMANCE AUDIT
CURRENT FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023

We consider the salaries and benefits expenditure in the amount of \$863 as disallowed costs, and translation services expenditure and indirect costs in the amount of \$544 (\$529 + \$19) as questioned costs.

Criteria

Accounting to the Agreement:

Section 39-A - DHS and its subcontractors are required to maintain separate accounting books and records for the Project funds.

Section 39-C - DHS and its subcontractors are required to maintain all records available for a period of four years following termination of the Agreement.

Employee leave hours for those employees who work more than one programs should be proportionally allocated to each program based on the actual hours worked for each program and adequate supporting documentation should be maintained for all expenditures claimed.

Effect

DHS and its subcontractor CRP did not comply with the Agreement resulting in disallowed and questioned costs.

Recommendation

We recommend DHS contact CRP to resolve the disallowed/questioned costs. Also, see the recommendation at Finding #1.

Management Response

In addition to response to Finding 1, DHS will work with CRP to resolve the disallowed and questioned costs.

COUNTY OF SACRAMENTO
DEPARTMENT OF HEALTH SERVICES
FIRST 5 SACRAMENTO COMMISSION CONTRACT
WOMEN, INFANTS, AND CHILDREN (WIC) PROGRAM
COMMUNITY LACTATION ASSISTANCE PROJECT
PERFORMANCE AUDIT
CURRENT STATUS OF PRIOR RECOMMENDATION

FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023

**FROM THE PRIOR PERFORMANCE AUDIT FOR THE PERIOD FROM JULY 1, 2021,
TO JUNE 30, 2022, DATED JANUARY 11, 2023**

1. Review of Subcontractor Monitoring

Prior Recommendation

We recommended DHS ensure that the subcontractor maintains functional time study for all employees to comply with the Agreement. We also recommended DHS perform review of time study reports and supporting documentations (e.g. timesheet reports and pay stubs) periodically as part of its monitoring procedures to ensure that claims submitted to DHS were supported by time studies and actual costs. Any differences between actual amount and the time studies should be researched and resolved in a timely manner.

Current Status

It appears that the prior recommendation has not been fully implemented. See ATT 2 – *Current Findings and Recommendations*.