

# COUNTY OF SACRAMENTO

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

**INTERNAL AUDIT REPORT**

**EL HOGAR COMMUNITY SERVICES**  
**FISCAL MONITORING**  
**AGREED-UPON PROCEDURES**

**DEPARTMENT OF HEALTH SERVICES**



**Audit Committee Submittal Date: 08/17/2023**

## **SUMMARY**

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### **Background**

This fiscal monitoring Agreed-Upon Procedures were requested by Department of Health Services (DHS) as based on DHS' risk assessment.

El Hogar Community Services (El Hogar) contracted with DHS to provide mental health services for outpatient individuals, as well as community outreach programs. Internal Audit Unit performed this Agreed-Upon Procedures engagement for El Hogar's mental health services contracts for the period July 1, 2019 to June 30, 2021.

### **Audit Objective**

To assist DHS in assessing El Hogar's financial condition and compliance with the agreements between DHS and El Hogar, and to verify that monthly invoices submitted by El Hogar are accurate and reasonable.

### **Summary**

Based on our agreed-upon procedures performed, we noted exceptions in the areas of El Hogar's internal controls, financial statements, general ledger, cost allocation, and compliance requirement of County Owned Capital Assets Reporting

**Department of Finance**

Chad Rinde  
Director



**County of Sacramento**

**Divisions**

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

July 21, 2023

Timothy Lutz, 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 Mr. Lutz:

We have performed the procedures, enumerated below, which were requested and agreed to by your department regarding El Hogar Community Services' (El Hogar) fiscal compliance as outlined in the contractual agreements (Agreements) listed below:

- **Mental Health Services: Sierra Elder Wellness Program**
  - Contract number 7202100-20-001 for the period July 1, 2019 to June 30, 2020.
  - Contract number 7202100-21-001 for the period July 1, 2020 to June 30, 2021.
- **Mental Health Services: Guest House Program**
  - Contract number 7202100-20-025 for the period July 1, 2019 to June 30, 2020.
  - Contract number 7202100-21-025 for the period July 1, 2020 to June 30, 2021.
- **Mental Health Services: SeniorLink Program**
  - Contract number 7202100-20-040 for the period July 1, 2019 to June 30, 2020.
  - Contract number 7202100-21-040 for the period July 1, 2020 to June 30, 2021.
- **Mental Health Services: Regional Support Team Program**
  - Contract number 7202100-20-119 for the period July 1, 2019 to June 30, 2020.
  - Contract number 7202100-21-119 for the period July 1, 2020 to June 30, 2021.

This agreed-upon procedures engagement was conducted to assist the Department of Health Services (DHS) to assess El Hogar's financial condition and compliance with the above Agreements.

DHS' management is responsible for monitoring El Hogar'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 below 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 on page one (1) and does not pertain to any other agreements of DHS or El Hogar.

The procedures performed and our results were as follows:

1. Internal Controls - We reviewed El Hogar'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 El Hogar's written procedures for clients' admission and release, program eligibility verification, and services provided for its programs listed in the Agreements.

Result: We noted El Hogar did not maintain written policies and procedures regarding general ledger and financial reporting. See ATT 3 – *Current Findings and Recommendations*.

2. Financial Statements - We inspected El Hogar's audit reports for fiscal years ended June 30, 2020 and 2021 to identify any concerns or issues that require your attention.

Result: El Hogar did not maintain accurate financial data in its accounting system resulting in several proposed audit adjustments to its financial statements by an independent auditor. See ATT 3 – *Current Findings and Recommendations*.

3. Claim Submissions - We inspected El Hogar's monthly invoice claims for July 2019, April 2020, June 2020, November 2020, March 2021, and June 2021. For actual cost reimbursement claims, we traced amounts claimed to documentation supporting the expenses for 30 sample expense transactions. For provisional rate and negotiated rate claims, we traced the claimed units of service to client service unit reports generated from electronic health record system (Avatar).

Result: We did not note any exceptions as a result of this procedure other than those related to improper administrative cost allocation as identified in item #5. See ATT 3 – *Current Findings and Recommendations*.

4. General Ledger - We traced El Hogar's monthly invoice claims for August 2019, April 2020, June 2020, November 2020, March 2021, and June 2021 to El Hogar's general ledger and audited financial statements. We also compared El Hogar's invoice claims to its general and audited financial statements for each contract period of this engagement.

Result: We noted El Hogar's general ledger was not reconciled to the audited financial statements. We also noted differences between expenses claimed to DHS by El Hogar and by expenses per audited financial statements; however, the expense payments are subject to cost settlement after the term of contract ended. See ATT 1 – *Schedule of Amounts Budgeted, Reported, Recorded, and Audited for FY 2019/20*, ATT 2 – *Schedule of Amounts Budgeted, Paid, Recorded, and Audited for FY 2020/21* and ATT 3 – *Current Findings and Recommendations*.

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

Result: We noted exceptions regarding El Hogar's administrative cost allocation methods and the supporting documentation. See ATT 3 – *Current Findings and Recommendations*.

6. Funding Sources - We inspected El Hogar's general ledger and invoice claims for July 2019, April 2020, June 2020, November 2020, March 2021, and June 2021 to identify any inappropriate or duplicated charges.

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

7. Other procedures – During the course of our engagement procedures, we noted that El Hogar purchased vehicles funded by the Agreements. We verified whether the vehicle purchases and recordkeeping were in compliance with the Agreements.

Result: We noted that El Hogar did not comply with the Agreements regarding the purchase and recordkeeping of vehicles. ATT 3 – *Current Findings and Recommendations*.

This agreed-upon procedures engagement was conducted in accordance with *Generally Accepted 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 El Hogar's financial statements or schedules, internal controls, or compliance with the Contract. 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 Contract and does not extend to any other program administered by Sacramento County DHS.

DHS and El Hogar's management responses to the findings identified during our engagement are described in ATT 3 – *Current Findings and Recommendations*. We did not perform procedures to validate DHS and El Hogar's management responses to the findings and, accordingly, we do not express opinions on the responses to the findings.

Timothy Lutz, Director  
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This report is intended solely for the use of the Sacramento County Board of Supervisors, 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,

CHAD RINDE  
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, CPA  
Chief of Audits

Enclosures

ATT 1 – *Schedule of Amounts Budgeted, Reported, Recorded, and Audited for FY 2019/20*  
ATT 2 – *Schedule of Amounts Budgeted, Paid, Recorded, and Audited for FY 2020/21*  
ATT 3 – *Current Findings and Recommendations*

**COUNTY OF SACRAMENTO  
DEPARTMENT OF HEALTH SERVICES  
EL HOGAR COMMUNITY SERVICES  
FISCAL MONITORING AGREED-UPON PROCEDURES  
SCHEDULE OF AMOUNTS BUDGETED, REPORTED, RECORDED, AND AUDITED  
FOR THE PERIOD JULY 1, 2019 TO JUNE 30, 2021**

**JULY 1, 2019 TO JUNE 30, 2020**

Program Contract #	Total <sup>(1)</sup> Amount Budgeted	Total <sup>(2)</sup> Amount Per Settlement Report	Total <sup>(3)</sup> Amount per General Ledger	Total <sup>(4)</sup> Amount Audited
Sierra Elder Wellness 7202100-20-001	\$ 2,298,327.00	2,017,743.00	2,014,130.82	2,094,508.88
Guest House 7202100-20-025	4,409,227.00	2,761,276.00	2,758,165.49	2,728,457.10
Senior Link 7202100-20-040	612,000.00	554,102.00	555,190.26	561,409.26
Regional Support 7202100-20-119	4,900,919.00	4,144,188.00	4,135,591.04	4,092,807.00
<b>Total Expense</b>	<b>\$ 12,220,473.00</b>	<b>9,477,309.00</b>	<b>9,463,077.61</b>	<b>9,477,182.25</b> <sup>(5)</sup>
		(183,949.00)		
<b>Total Amount Paid to El Hogar by DHS</b>		<b>\$ 9,293,360.00</b>		

<sup>(1)</sup> Total amount budgeted per the Agreements.

<sup>(2)</sup> Expenses claimed by El Hogar Community Services (El Hogar) are subject to cost settlement per instruction by the State of California. Preliminary cost settlement was completed for FY 2019/20. The Total Amount Per Settlement Report represents expenses reported by El Hogar to Department of Health Services (DHS) for preliminary cost settlement, not adjusted for claim denial; however, final cost settlement had not been completed as the last day of our engagement procedures (March 15, 2023).

<sup>(3)</sup> Represents total expense amount recorded in El Hogar's general ledger/unaudited financial statements.

<sup>(4)</sup> Represents the amounts audited by El Hogar's independent auditor which include program services expenses and administrative expenses allocated proportionally based on total program services expenses.

<sup>(5)</sup> Amounts may differ due to rounding.

**COUNTY OF SACRAMENTO**  
**DEPARTMENT OF HEALTH SERVICES**  
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**FISCAL MONITORING AGREED-UPON PROCEDURES**  
**SCHEDULE OF AMOUNTS BUDGETED, PAID, RECORDED, AND AUDITED**  
**FOR THE PERIOD JULY 1, 2019 TO JUNE 30, 2021**

**JULY 1, 2020 TO JUNE 30, 2021**

Program Contract #	Total <sup>(1)</sup> Amount Budgeted	Total <sup>(2)</sup> Amount Paid	Total <sup>(3)</sup> Amount per Gneral Ledger	Total <sup>(4)</sup> Amount Audited
Sierra Elder Wellness 7202100-21-001	\$ 2,298,327.00	2,138,171.41	2,106,500.30	2,052,028.01
Guest House 7202100-21-025	4,409,227.00	3,159,239.87	3,165,112.71	3,264,706.24
Senior Link 7202100-21-040	612,000.00	540,413.11	581,224.26	615,687.38
Regional Support 7202100-21-119	4,900,919.00	4,248,577.81	4,247,501.45	4,632,891.11
<b>Total</b>	<b><u>\$ 12,220,473.00</u></b>	<b><u>10,086,402.20</u></b>	<b><u>10,100,338.72</u></b>	<b><u>10,565,312.75</u></b>

(1) Total amount budgeted per the Agreements.

(2) Total amount paid to El Hogar Community Services (El Hogar) by Department of Health Services.

(3) Represents total expense amount recorded in El Hogar's general ledger/unaudited financial statements.

(4) Represents the amounts audited by El Hogar's independent auditor which include program services expenses and administrative expenses allocated proportionally based on total program services expenses.

(5) Expenses claimed by El Hogar are subject to cost settlement per instruction by the State of California and the Cost Settlement was not completed as the last day of our engagement procedures (March 15, 2023).

See Independent Accountant's Report on Applying Agreed Upon Procedures



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Current Findings and Recommendations  
For the Period July 1, 2019 to June 30, 2021

## 1. Internal Controls

### Condition

During our review of written internal control policies and procedures, we noted that El Hogar Community Services (El Hogar) did not maintain written policies and procedures for general ledger and financial reporting.

### Criteria

El Hogar should establish and implement adequate internal control policies and procedures for general ledger and financial reporting.

### Effect

Without adequate written policies and procedures for general ledger and financial reporting, El Hogar is at risk of not being able to detect any material errors and misstatement in its general ledger or financial reports.

As described in Finding #2 and #3, El Hogar's Independent auditor proposed several audit adjustments to its financial statements during Fiscal Year (FY) 2020/21 audit. In addition, El Hogar's general ledger was not reconciled to its audited financial statements and invoice claims.

### Recommendation

El Hogar should establish and implement general ledger and financial reporting procedures to ensure accurate recording and reporting of its financial information.

### Department of Health Services (DHS)' Management Response

El Hogar has new Fiscal management as of Q3 of fiscal year (FY) 2021-22. Written policies and procedures specific to General Ledger and Financial Reporting were developed and drafted by 06/30/2023. A copy of the draft was submitted to DHS.

DHS will follow-up with El Hogar for final policy and implementation.

## 2. Financial Statements

### Condition

Based on our review of El Hogar's FY 2020/21 Independent Auditor's Report to Those In Charge of Governance, El Hogar did not accrue a FY 2018/19 liability in the amount of \$425,084 due to the County arose out of cost report settlement and did not adjust to

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increase the vacation liability for FY 2020/21 by \$131,797 in its accounting system resulting in proposed audit adjustments in FY 2020/21. In addition, the Independent Auditor proposed other audit adjustments to clear up old accounts that were no longer active and accruals that were not reversed timely manner.

El Hogar indicated that these proposed audit adjustments were posted to its general ledger; however, the audited financial statements were not reconciled to its general ledger. El Hogar could not explain the differences.

Criteria

El Hogar should maintain accurate financial information in its accounting system.

Effect

Not accruing incurred liabilities in El Hogar's accounting records and not properly posting proposed audit adjustments will result in inaccurate financial information and can mislead DHS in monitoring El Hogar's financial activities and making future contract selection.

Recommendation

El Hogar should maintain accurate financial information in its accounting system so that its stakeholders can make informed decisions on critical operational and financial matters.

In addition, El Hogar should post all material proposed audit adjustments to its general ledger and reconcile its general ledger to the audited financial statements.

Also, see recommendation for Finding #1.

DHS' Management Response

El Hogar identified unreported liabilities in Q4 of FY 2021-22. Proper adjustments were made to the financial statements to reflect all liabilities for the closing of FY 2021-22. El Hogar's FY 2021-22 financial statements have been audited by their independent auditor.

In addition, please see response to Finding #1.

### **3. General Ledger**

Condition

Based on our review of the Agreements, all four (4) program agreements under this review were subject to either cost reimbursement or negotiated rate payment. Starting on March 1, 2020, DHS amended the payment stipulations of the Agreements to allow El

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Hogar to claim up to one-twelfth of the total contract amounts to continue stable payments during the COVID-19 pandemic.

The expense claims are subject to be settled to the lesser of actual and allowable costs or published charges per instruction by the State of California. Preliminary cost settlement was completed for FY 2019/20 but not for FY 2020/21 and final cost settlement had not been completed for both FY 2019/20 and FY 2020/21 as of the last day of our engagement procedures (March 15, 2023).

During our procedures, we noted:

- a. incidences where El Hogar did not adjust revenues recorded for County invoice claims after portion of the claims was not reimbursed due to denial or unallowable expense claim.
- b. differences between expenses reported to DHS by El Hogar for cost settlement, expenses per El Hogar's general ledger, and expenses per El Hogar's financial statements audited by its independent auditor for FY 2019/20. See ATT 1 – *Schedule of Amounts Budgeted, Reported, Recorded, and Audited for FY 2019/20*.
- c. differences between expenses paid to El Hogar by DHS, expenses per El Hogar's general ledger, and expenses per El Hogar's financial statements audited by its independent auditor for FY 2020/21. See ATT 2 – *Schedule of Amounts Budgeted, Paid, Recorded, and Audited for FY 2020/21*.

El Hogar could not explain the differences noted above.

Criteria

Exhibit D, Section VII-B of the Agreements states, "CONTRACTOR (El Hogar) shall maintain complete service financial records, which clearly reflect the actual cost and related fees received for each type of service for which payment is claimed. "

Effect

Not reconciling invoice claims to El Hogar's general ledger/financial data may lead to over/under claiming expenses to the County and negatively impact its program cash flows.

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Recommendation

El Hogar should reconcile expenses claimed to DHS to its general ledger/financial records and maintain sufficient supporting documentation for the claims.

Any discrepancies noted should be researched and the resolution should be documented in a timely manner in order to avoid any denied claims and/or over/under claims.

DHS' Management Response

DHS will follow-up with El Hogar to ensure that General Ledger policies and procedures are finalized, claims are reconciled to its general ledger, and supporting documentation is maintained.

**4. Cost Allocation**

Condition

El Hogar allocated its administrative costs based on maximum contract budget instead of using methods that are systematic, rational and reflective of its operations such as using ratio of program square footage, direct labor hours, actual program costs, etc.

In addition, during our review of El Hogar's administrative cost allocation schedules, we noted an incident of mathematical error on one of the allocation schedule and the schedules were not properly labeled with the applicable contract year the percentages were applicable to.

We performed our analysis based on actual program and administrative expenses per financial statements audited by its independent auditor to evaluate whether the administrative costs allocated to El Hogar's general ledger was reasonable. Based on our analysis, El Hogar's administrative expenses were disproportionately allocated to each program contracted with DHS. However, we were not able to determine questioned or disallowed costs as a result of the improper cost allocation as we were not able to obtain the invoice claim breakdown of program expenses verses administrative expenses.

The Total Audited Amount Audited shown on ATT 1 – *Schedule of Amounts Budgeted, Reported, Recorded, and Audited for FY 2019/20* and ATT 2 – *Schedule of Amounts Budgeted, Paid, Recorded, and Audited for FY 2020/21* included program services expenses and administrative expenses allocated proportionally based on total program services expenses per financial statements audited by El Hogar's independent auditor.

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Criteria

El Hogar should allocate its administrative costs based on the allocation methods that are systematic, rational and reflective of its operations such as using ratio of program square footage, direct labor hours, actual program costs, etc. to reflect actual utilization of contract services.

Effect

Using the maximum contract budget amount as the basis for calculating cost allocation percentages for invoice claiming may not be an accurate allocation of administrative costs if the actual utilization of contract services varies from anticipated expectations.

Not properly reviewing and updating the administrative cost allocation schedules and other supporting documentation used for administrative expense claiming may lead to over/under claiming of administrative expenses to the County and negatively impact El Hogar's programs' cash flow. In addition, not maintaining accurate and adequate supporting documentation for administrative expenses claimed to the County could result in the claims being disallowed.

Recommendation

El Hogar should develop allocation methods that are systematic, rational and reflective of its operations for allocating administrative costs to its programs to reflect actual utilization of contract program services.

In addition, El Hogar should develop procedures to verify accuracy of administrative cost allocation schedules, including but not limited to, clearly identifying the period of time the allocation percentages are applicable to.

We recommend DHS follow up with El Hogar to resolve issues related to the improper administrative cost allocation. We also recommend DHS consider modifying contract language to provide guidance to El Hogar for its administrative cost allocation.

DHS' Management Response

El Hogar identified allocated cost discrepancies in Q3 of FY 2021-22. El Hogar met with DHS contract monitors on 03/17/2022 to review, propose, and agree on an accurate methodology for allocated cost reporting. El Hogar implemented a new methodology in FY 2022-23. In addition, written policies and procedures specific to cost allocation were developed and drafted by 06/30/2023. A copy of the draft was submitted to DHS.

DHS will follow-up with El Hogar for final policy and implementation.

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## 5. County Owned Capital Assets Reporting

### Condition

El Hogar purchased 37 vehicles funded by DHS' four program contracts and the title of the vehicles should have been under County of Sacramento (County) but were under El Hogar. In addition, El Hogar provided DHS with a list of vehicle purchased; however, the list did not include the vehicle cost or value. As a result, the 37 vehicles were not recorded in the County's accounting system (COMPASS).

### Criteria

Exhibit D, Section XII. Equipment Ownership, of the Agreements states, "*COUNTY shall have and retain ownership and title to all equipment identified to be purchased by CONTRACTOR (El Hogar) under Exhibit C of this Agreement. CONTRACTOR (El Hogar) shall furnish, and amend as necessary, a list of all equipment purchased under this Agreement together with the bills of sale and any other documents as may be necessary to show clear title and reasonableness of the purchase price. The equipment list shall specify the quantity, name, description, purchase price, and date of purchase of all equipment.*"

All capital assets owned by the County should be recorded in COMPASS and tagged with an inventory number to properly track and account for the assets.

### Effect

El Hogar did not comply with the Agreements regarding the purchase and recordkeeping of vehicles. As a result, the County's capital assets were not properly accounted in COMPASS.

### Recommendation

El Hogar should provide a master list of the County owned capital assets to DHS, specifying the quantity, name, description, purchase price, and date of purchase of all equipment as required by the Agreements and tag the assets with an inventory number to properly track and account for in COMPASS.

Furthermore, El Hogar should work with the County to transfer ownership title of the 37 vehicles to the County within the next 60 days.

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DHS' Management Response

El Hogar identified vehicle assets in Q3 of FY 2021-22. After reviewing with Independent Auditors, these assets were recognized as expenses. Also, El Hogar sent a complete list of all vehicle assets to DHS contract monitors on 05/13/2023. DHS will work with El Hogar to ensure all its identified vehicle titles are retained by the County.