

COUNTY OF SACRAMENTO

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

INTERNAL AUDIT UNIT REPORT

DEPARTMENT OF HEALTH SERVICES FIRST 5 SACRAMENTO COMMISSION AGREEMENT

AGREED-UPON PROCEDURES

**FOR THE PERIOD OF JULY 1, 2024
THROUGH JUNE 30, 2025**



Audit Committee Submittal Date: 04/16/2026

SUMMARY

Background

The First 5 Sacramento Commission (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 agreed-upon procedures report of the Project to be submitted to the Commission each fiscal year. Accordingly, DHS requested the County Department of Finance to perform the agreed-upon procedures for the Project.

Audit Objective

The agreed-upon procedures engagement was conducted to assist DHS in determining whether the Project complied with the provisions of the Agreement for the period of July 1, 2024 to June 30, 2025.

Summary

Based on our procedures, we noted some deficiencies related to DHS' subcontractor monitoring procedures and subcontractor expenditure claiming.

Department of Finance

Chad Rinde
Director



County of Sacramento

Divisions

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

March 23, 2026

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

Dear Mr. Lutz:

We have performed the procedures enumerated below and page 2, which were requested and were agreed to by you, regarding 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) under the contractual agreement (Agreement), contract Number 7201500-25/27-085R, to assess the Project's compliance with the Agreement, for the period of July 1, 2024 through June 30, 2025.

DHS' management is responsible for the Project's compliance with the Agreement.

DHS has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purposes of DHS' compliance with the Agreement. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed, and results are as follows:

1. 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.

Result: We did not note any conflict of interest or non-compliance with the Agreement as a result of our procedures.

2. Internal Controls – We obtained and reviewed the Project's written internal control policies and procedures for purchasing, vendor payments payrolls, and claim submission. We compared the procedures to the results of our procedure numbers 4, 5, 6 and 7.

Result: We noted a deficiency in DHS' subcontractor monitoring policies and procedures. See ATT 2 - *Current Finding and Recommendation*.

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3. 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 number 5, 6, and 7.

Result: We noted some exceptions related to DHS subcontractor’s overtime allocation and clerical errors in the payroll cost allocation calculations as described in procedure number 7. See ATT 2 - *Current Finding and Recommendation*.

4. 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.

Result: We did not note any exception as a result of our procedures.

5. Payroll Expenditures – Payroll expenditures for the Project consisted of DHS staff payroll as well as for the Lactation Consultants. We selected a sample of payroll transactions totaling \$68,789 out of \$175,098, representing approximately 39% of total payroll expenditures, and tested for compliance with the Agreement and applicable laws. We recalculated salaries and benefits using payroll registers, timesheets, activity reports, and the cost allocation methodology, as applicable, and traced the results to the claim submission.

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

6. Non-Payroll Expenditures –We selected a sample of DHS’ non-payroll expenditure transactions totaling \$1,755 out of \$9,569, representing approximately 18% of operating and indirect costs and traced them to the supporting documentation, including vendor invoices, receipts, journal entries, and cost allocation calculations, to test for compliance with the Agreement.

Result: We did not note any exception as a result of our procedures.

7. Subcontractor Monitoring – We reviewed the Project’s written subcontractor monitoring policies and procedures. DHS had one subcontractor, Community Resources Project, Inc. (CRP), during the period under review. We obtained and reviewed the reconciliation between CRP invoice claims submitted to DHS and its general ledger for the selected months (January through March 2025). We also selected a sample of CRP’s expense transactions totaling \$45,459 out of \$176,921 (approximately 26% of subcontractor expenses) and tested for compliance with the Agreement.

Result: We noted exceptions related to CRP’s overtime allocation and vacation accruals. We also noted several clerical errors in calculating payroll allocation and inappropriate claiming of operating expenses. The majority of these errors were repeated from prior review and these errors resulted in \$106 in disallowed costs and \$433 in questioned costs. See ATT 1 - *Schedule of Amounts Budgeted, Claimed,*

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Tested, and Disallowed and Questioned and ATT 2 - Current Finding and Recommendation and ATT 3 – Current Status of Prior Recommendation.

8. Status and progress reports – We obtained and reviewed status and progress reports submitted to the Commission for the Project to identify any reports that were submitted after the required due dates.

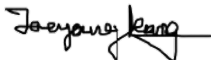
Result: We did not note any exceptions as a result of our procedures.

This agreed-upon procedures engagement was conducted in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States of America. We were not engaged to, and did not perform an audit, examination, or review, the objective of which would be the expression of an opinion or conclusion, respectively, on DHS' compliance with the Agreement or results of our procedures referred above. 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 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, and Disallowed*
ATT 2 – *Current Finding and Recommendation*
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
 Agreed-Upon Procedures
 Schedule of Amounts Budgeted, Claimed, Tested, Disallowed, and Questioned
 For the Period of July 1, 2024 to June 30, 2025

<u>Program Costs</u>	¹⁾ <u>Amount Budgeted</u>	<u>Amount Claimed</u>	<u>Amount Tested</u>	<u>Amount Disallowed</u>	<u>Amount Questioned</u>
Salaries	\$ 57,410	50,035	50,035		
Benefits	22,092	14,919	14,919		
Operating	29,336	4,658	1,755		
LC Consultants	101,521	110,144	3,835		
Subcontractor	185,692	176,921	45,459 ²⁾	106 ³⁾	433
Indirect	<u>7,628</u>	<u>4,911</u>	<u> </u>	<u> </u>	<u> </u>
Total Costs	<u>\$ 403,679</u>	<u>361,588</u>	<u>116,003</u>	<u>106</u>	<u>433</u>

1) Amounts rounded to the nearest dollar.

2) The disallowed costs represent subcontractor's salaries, benefits, and operating expenses resulting from inappropriate overtime allocation and vacation accruals, as well as several clerical errors in calculating payroll allocation, and unallowable operating costs . See ATT 2 - *Current Finding and Recommendation* .

3) The questioned costs represent subcontractor's operating costs not supported by adequate documentation. See ATT 2 - *Current Finding and Recommendation* .

County of Sacramento
Department of Health Services
First 5 Sacramento Commission Contract
Women, Infants, and Children (WIC) Program
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Current Findings and Recommendations

For the Period July 1, 2024, to June 30, 2025

1. **Subcontractor Expenditure Claims**

Criteria

Per the Agreement between DHS and Commission (Agreement) for Women, Infants, and Children Program, Community Lactation Assistance Project (Project),

- Section 27-F, DHS should maintain for four years following termination of the agreement, full and complete documentation of all services and expenditures associated with performing the services covered under the Agreement.
- Section 29-A, DHS remain legally responsible for the performance of all Agreement terms including work performed by third parties under subcontracts and should require its subcontractors to comply with the provision of the Agreement.

Per the Agreement between DHS and Community Resource Project, Inc. (CRP) for the Project (Subcontract Agreement),

- Exhibit C, Section III-C, CRP is required to maintain adequate supporting documentation for all expenditures claimed.
- Section XXXI, CRP is required to maintain such records for a period of four years following termination of the Subcontract Agreement.

Invoice claims should be thoroughly reviewed for mathematical accuracy and compliance with the Agreement.

Overtime costs associated with a specific funding source should be directly charged to that funding source rather than allocated based on the percentage of regular hours worked across different funding sources.

When employee vacation expenses are claimed on an accrual basis, actual vacation payment made should not be included in the claim.

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Overtime hours should not be included in the calculation of vacation accruals, and the correct pay rates in effect during the applicable period should be used when calculating vacation accrual expenses.

All operating expenses claimed should be properly classified and the purpose and approval of the expenses should be documented.

Condition

Department of Health Services (DHS) subcontracted with CRP for Women, Infant, and Children Program, Community Lactation Assistance Project (Project), which was approved by the First 5 Sacramento Commission (Commission).

During our prior review, we identified several issues related to CRP's claims and recommended that DHS updates its subcontractor monitoring policies and procedures to ensure proper oversight of subcontractor invoice claiming activities. However, based on our current review, it appears that DHS has not updated these monitoring policies and procedures. As a result, we noted the following issues during our testing of CRP's expenditure claims:

1) Salaries and Benefits

- a. CRP charged overtime incurred on the Project based on the percentage of regular hours worked between the Project and another funding source, rather than charging the overtime to the Project based on actual hours worked. This resulted in over/(under) claimed salary expenses.
- b. CRP inaccurately calculated payroll cost allocation percentage based on time study results for the second pay period of each month we tested (January through March 2025) for one employee, resulting in over/(under) claimed salaries and benefit expenses.
- c. CRP elected to claim its employee vacation expenses on an accrual basis as part of benefit expenses; therefore, actual expenses for vacation taken should have been excluded from invoice claim. However, CRP included this expense in January 2025 for salary expense claim, resulting in overclaim of salary expenses. In addition, CRP improperly included overtime in the calculation of vacation accrual expenses. Furthermore, for vacation accruals we tested for

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January through March 2025 claims, CRP used prior pay rates rather than the correct rates during those months, resulting in underclaimed benefit expenses.

- d. CRP incorrectly calculated one employee's retirement benefit expense for the first pay period of March 2025, resulting in an overclaim.

The above condition resulted in a net overclaim of \$57 in salary expenses and net under claim of \$600 in benefit expenses. We consider the overclaimed salary expenses to be disallowed costs.

2) Operating Expenses

- a. For four of the six transactions tested, the purpose of expenses was not documented. In addition, the expenses were claimed as direct costs; however, they did not appear to be directly related to the program. Furthermore, one of the transactions consisted of food catering expenses but was claimed under Office Supplies, Equipment & Materials line item without documented purpose or justification. As a result, the total claimed amount of \$49 associated with these transactions is considered disallowed costs.
- b. For two of six transactions tested, the expenses were claimed under Training/Conferences and Audit Costs, respectively; however, they were not supported by an adequate cost allocation methodology and calculation. In addition, Audit Costs were not properly reconciled to CRP's general ledger and were not supported by invoices. As a result, the total claimed amount of \$433 associated with these transactions is considered questioned costs.

Cause

DHS did not update its subcontractor monitoring policies and procedures to enhance the subcontractor claim activity monitoring process as recommended during the prior review.

CRP did not maintain adequate internal controls and review procedures to ensure accurate cost allocation, correct benefit calculations, proper classification of expenses, and complete supporting documentation.

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Insufficient oversight allowed recurring errors in payroll allocation, vacation accrual methods, and documentation of operating expenses.

CRP manually tracked the Project expenses rather than using an automated calculation process, including payroll expense allocation and vacation accrual expense calculation.

In addition, it appears that CRP improperly reallocated certain indirect costs as direct expenses.

Effect

CRP's inappropriate invoice claiming practices and errors resulted in \$106 (\$57 + \$49) in disallowed costs and \$433 in questioned costs, and could result in additional disallowed or questioned costs from future claims, if they are not corrected in a timely manner.

Recommendation

We recommend DHS require sufficient and appropriate documentation from CRP to substantiate the questioned costs identified above. If the requested documentation is not provided, DHS should evaluate whether the associated costs do not meet allowable cost criteria and should therefore be disallowed. DHS should work with the Commission and CRP and resolve the identified disallowed and questioned costs either by making repayment to the Commission or offsetting the costs against the identified underclaimed amount if permitted by the Agreement.

In addition, we recommend DHS update its subcontractor monitoring policies and procedures as necessary to provide enhanced oversight of CRP's invoice preparation and claiming process, including periodic reviews and validation of payroll allocations, benefit calculations, and operating cost support.

Furthermore, we recommend DHS require CRP to undergo refresher training on cost principles and documentation expectations.

CRP should implement stronger internal controls, including:

- Thorough secondary review to ensure accurate calculation of expense claims
- Accurate application of payroll allocation percentages
- Accurate claiming of overtime to the appropriate program

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- Proper calculation of vacation accrual expenses and exclusion of vacation pay actually expended
- Correct classification and proper documentation of operating expenses, including the documented purpose and approval

DHS Management Response

The auditor's review identified overages in the vacation accrual calculation related to overtime and vacation earned that were inadvertently included in the claim. The invoice template, originally developed by DHS to help CRP WIC provide complete documentation and address prior concerns with salary and benefit claims, unintentionally contributed to this issue.

DHS will update the template for accurate vacation accrual, strengthen oversight of provider invoices through revised monitoring procedures, and ensure CRP completes refresher training on cost principles and documentation.

CRP has agreed to return the disallowed costs, as of March 17, 2026.

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For the Period of July 1, 2024, to June 30, 2025

**FROM THE AGREED-UPON PROCEDURES FOR THE PERIOD OF JULY 1, 2023, TO
JUNE 30, 2024, DATED FEBRUARY 11, 2025**

1. Subcontractor Expenditure Claims

Prior Recommendation

We recommended DHS contact CRP to resolve the issues identified including disallowed costs.

In addition, we recommended DHS update its subcontractor monitoring policies and procedures as necessary to properly monitor its subcontractor's invoice claiming activities.

Current Status

DHS resolved the disallowed costs identified in the previous audit. However, we noted several exceptions related to subcontractor invoice claiming resulting in questioned and disallowed costs. See ATT 1 - *Current Finding and Recommendation*.