

COUNTY OF SACRAMENTO

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

INTERNAL AUDIT REPORT

DEPARTMENT OF HUMAN ASSISTANCE
FISCAL MONITORING

SOUTH COUNTY SERVICES



Audit Committee Submittal Date: 11/15/2019

SUMMARY

Background

County contracts require fiscal monitoring of South County Services' (SCS) fiscal compliance. The Department of Human Assistance requested the Internal Audits Unit to perform fiscal monitoring of SCS to satisfy the contract requirements.

Audit Objective

Inspect SCS's financial statements, internal controls, invoice claims, general ledger, cost allocation, and funding sources for compliance with the contractual agreements with the County of Sacramento.

Summary

We noted several issues related to SCS's financial statements, internal controls, invoice claims, general ledger, cost allocation, and funding sources related to the compliance with the contractual agreements.



County of Sacramento

October 1, 2019

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 South County Services' (SCS) contractual agreements (Agreements) with the County of Sacramento (County), Department of Human Assistance (DHA) for the period listed below:

- Agreement Number DHA-SCS-01-17 for essential and necessary services to County residents who reside in Galt and rural Sacramento County for the period from January 1, 2017 to June 30, 2017.
- Agreement Number DHA-SCS-01-18 for essential and necessary services to County residents who reside in Galt and rural Sacramento County for the period from July 1, 2017 to January 31, 2018.

The sufficiency of the procedures is solely the responsibility of DHA. Consequently, we make no representation regarding the sufficiency of the procedures described on pages 2 and 3 of this letter 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 to above and is not intended to pertain to any other contractual agreements of SCS or DHA. This agreed-upon procedures engagement was conducted to assist DHA with assessing SCS's compliance with the provisions outlined in the Agreements mentioned above.

DHA's management is responsible for monitoring SCS's compliance with the provisions outlined in the above Agreements and with Exhibit "D" Part IA (Monitoring) for the Agreements, "*COUNTY shall monitor the Program and the adequacy of CONTRACTOR's performance in the manner, which COUNTY deems most effective. CONTRACTOR shall cooperate with COUNTY in such monitoring.*"

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

1. Financial Statements – We attempted to inspect SCS’s audit reports for fiscal years ended June 30, 2016 and 2017, and interim unaudited financial statements as of January 31, 2018 to identify any concerns or issues that require your attention.

Finding: SCS did not provide audited reports and interim unaudited financial statement for our review, therefore, we did not perform this procedure. See Attachment I, *Comments and Recommendations*.

2. Internal Control – We attempted to inspect SCS’s written internal control policies and procedures including purchasing, vendor payments, payroll, claim submissions, cost allocations, general ledger, and financial report preparation to identify any concerns or issues that require your attention.

Finding: SCS did not provide written internal control policies and procedures, and there were significant deficiencies in controls identified. See Attachment I, *Comments and Recommendations*.

3. Claim Submission – We inspected SCS’s invoice claims and expense reports for the months of: March 2017, June 2017, September 2017, and January 2018. We tested 97 transactions and 36 participants for the reported expenses for Salaries and Benefits, Administrative and Overhead, and Direct Services categories from the selected monthly invoice claims.

We attempted to trace the selected transactions and participants to supporting documentation.

Finding: We noted several exceptions that require DHA’s attention as a result of our procedures. We extrapolated the results from this procedure to compute projected questioned and disallowed costs for the entire period from January 1, 2017 to January 31, 2018. See Attachment I, *Comments and Recommendations* and Schedules I to III, *Schedule of Questioned and Disallowed Costs*.

4. General Ledger – We attempted to trace SCS’s monthly invoice claims and expense reports for the selected months of March 2017, June 2017, September 2017, and January 2018 to SCS’s general ledger.

Finding: We noted several exceptions that require DHA’s attention as a result of our procedures. We extrapolated the results from this procedure to compute projected questioned and disallowed costs for the entire period from January 1, 2017 to January 31, 2018. See Attachment I, *Comments and*

Recommendations and Schedules I to III, Schedule of Questioned and Disallowed Costs.

5. Cost Allocation – We inspected SCS’s cost allocation policies and procedures to identify any concerns or issues that require DHA’s attention. We tested the transactions listed at Item #3 on the previous page to identify any issues related to cost allocations.

Finding: We noted an exception that requires DHA’s attention as a result of our procedures. We extrapolated the results from this procedure to compute projected questioned and disallowed costs for the entire period from January 1, 2017 to January 31, 2018. See Attachment I, *Comments and Recommendations and Schedules I to III, Schedule of Questioned and Disallowed Costs.*

6. Funding Sources – We made inquiries to SCS’s management to identify any funding sources, other than DHA, for its programs. We also inspected SCS’s general ledger, invoice claims and expense reports for the selected months of March 2017, June 2017, September 2017, and January 2018 to identify any inappropriate or duplicated charges.

Finding: We noted an exception that requires DHA’s attention as a result of our procedures. We extrapolated the result from this procedure to compute projected questioned and disallowed costs for the entire period from January 1, 2017 to January 31, 2018. See Attachment I, *Comments and Recommendations and Schedules I to III, Schedule of Questioned and Disallowed 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, examination, or review, the objectives of which would be the expression of an opinion or conclusion, respectively, on SCS’s financial statements or schedules, or compliance for the aforementioned programs, or results of our procedures above and on page 2. 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 and disallowed costs presented at Attachment I, *Comments and Recommendations*, and Schedules I to III, *Schedule of Questioned and Disallowed 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 engagement. Had we tested additional invoices, the projected questioned and disallowed costs would likely change.

DHA’s management responses to the findings identified during our engagement are described in Attachment I, *Comments 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.

Ann Edwards, Director
October 1, 2019
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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, CPA
Audit Manager

Enclosures

Attachment I: *Comments and Recommendations*
Schedules I to III: *Schedule of Questioned and Disallowed Costs*

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1. Financial Statements

Comment

During our engagement, we noted South County Services, Inc. (SCS) did not submit an annual financial and compliance audit for fiscal years 2015-16 and 2016-17 to the Department of Human Assistance (DHA). Per section XXXIII (Audits and Records) part A of the contractual agreements with DHA (Agreements), "*CONTRACTOR shall submit to the Contracts Manager an electronic copy of any annual financial and compliance audit in its entirety prepared by an independent accounting firm.*" Independent audits assist DHA with oversight of its contractors and monitoring of program resources related to compliance with contract terms and conditions.

Recommendation

We recommend DHA follow up with SCS for its annual financial and compliance audits per the Agreements.

DHA's Management Response

DHA acknowledges the finding. SCS provided the 2016, 2017, and 2018 990 tax statements to DHA. Subsequent agreements have been modified allowing SCS to submit an annual tax statement in lieu of a formal audit report due to their limited resources. DHA will work with SCS in ensuring the required annual reports are submitted in a timely manner.

2. Internal Controls Finding

a. Written Policies and Procedures

Comment

SCS did not have written policies and procedures for its financial and operational activities, which included:

- Purchasing
- Vendor Payments Process
- Payroll
- Claim Submissions
- Cost Allocation Methodology
- General Ledger Process
- Financial Reporting Preparation
- Equipment/Capital Assets

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Organizations that lack written policies and procedures can create confusion and inconsistency among staff, cause invoice claim errors and omissions, and non-compliance with contract provisions between SCS and its funding sources, including DHA.

Recommendation

We recommend DHA ensure SCS develop, adopt, and implement written policies and procedures for financial and operational activities relevant to the operation of the organization.

DHA's Management Response

DHA acknowledges the finding and will work with SCS to ensure they develop, adopt, and maintain written policies and procedures for their financial and operational activities. Since the engagement, SCS has provided DHA draft policies and procedures in response to the Department of Finance's recommendation that are pending their Board of Directors' approval.

b. Supporting Documentation

Comment

SCS did not maintain adequate supporting documentation for several of its claimed expenditures. Several receipts, invoices, and other substantiating documentation requested during our testing was either incomplete or missing. Proper internal controls dictate organizations maintain adequate supporting documentation for all of its financial activities. Per section XXII (Compensation and Payment of Invoices Limitations) part E of the Agreement, "*CONTRACTOR shall maintain for four (4) years following termination of this Agreement full and complete documentation of all services and expenditures associated with performing the services covered under this Agreement. Expense documentation shall include: time sheets or payroll records for each employee; receipts for supplies; applicable subcontract expenditures; applicable overhead and indirect expenditures.*" By not maintaining sufficient documentation, SCS and DHA cannot determine whether the expenses reported and claimed are appropriate or allowable. As a result, we noted several exceptions documented on this attachment, Finding 3.

Recommendation

We recommend DHA follow up with SCS regarding supporting documentation for all SCS's invoice claims. Expense receipts and invoices should be itemized and maintained by SCS. If merchants do not provide an itemized receipt or invoice, SCS should

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document the goods or services purchased, quantity and/or unit(s) of service. In addition, SCS should maintain substantiating supporting documentation for meetings, events, and travel that includes, but not limited to, agendas, itineraries, purpose, attendees, duration, and management approval.

DHA's Management Response

DHA acknowledges the finding and will work with SCS to ensure they maintain adequate supporting documentation. In 2017, DHA began providing technical assistance to SCS in regards to the proper submittal of their invoice claims. DHA will utilize the findings and recommendations outlined in this report to provide ongoing and more comprehensive technical assistance to help mitigate future issues. Since the engagement, SCS has notified DHA that they now attach all supporting documents to their invoice claims.

c. Capital Asset Policy

Comment

SCS did not have a written methodology for identifying, recording, and tracking capital assets. Capital asset policies allow organizations to set guidelines for physical custody/control, tracking, and capitalization of acquired equipment. An established policy also sets the organization's definitions for assets: valuation, capitalization, useful life, and depreciation methods. Without a capital asset policy, SCS could incorrectly catalog, incorrectly register, and lose track of capital assets within its custody. SCS acquired six electronic tablets as part of its communication cellular package, but the tablets were not tracked by the organization. As a result, we noted two missing tablets as described in Finding 3b.

Recommendation

DHA should ensure SCS establish an approved capital asset policy for valuing, recording, and tracking capital assets.

DHA's Management Response

DHA reiterates the response from Finding Number 2a.

d. Segregation of Duties

Comment

SCS does not have sufficient segregation of duties nor compensating controls for processing business activities. One individual receives deposits, posts deposits to the general ledger, and reconciles bank statements. Adequate internal controls should

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include sufficient segregation of duties over an organization's critical business processes. Without adequate controls, inaccurate transactions could go unnoticed along with the possibility of misappropriation of organizational assets.

Recommendation

DHA should require SCS develop internal control structures within the organization that ensures one individual does not control critical business processes from beginning to end.

DHA's Management Response

DHA acknowledges this finding. Due to the size of their organization and their limited available resources, maintaining proper segregation of duties will continue to be a challenge for SCS. DHA will work with SCS to mitigate the resulting internal control risks as much as possible with the limited staffing and resources available to them. Since the engagement, SCS has notified DHA that they have moved some of their financial activities to an additional employee.

e. Employee Time Card Review

Comment

There is no evidence that employee time cards were reviewed by SCS management. Good organizational internal controls require review of employee time cards. Time cards should show evidence of review in order to catch errors and confirm accuracy. SCS is unable to demonstrate that employee wages submitted on monthly claims were properly reviewed before being reimbursed by DHA. The executive director's time cards tested showed evidence of review, but SCS does not require the same evidence of employee time card review for remaining SCS staff.

Recommendation

DHA should require SCS review and sign time cards for all SCS staff before salaries are submitted for reimbursement.

DHA's Management Response

DHA acknowledges the finding. In 2017, DHA began providing technical assistance to SCS in regards to the proper submittal of their invoice claims. Part of the technical assistance currently provided includes DHA validating SCS's salaries that consists of a thorough review of their timecards. Since the engagement, SCS' Executive Director now reviews and signs all employee timecards.

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3. **Claim Submission**

a. **Supporting Documentation for Claims**

Comment

Per the Agreement, SCS is required to maintain supporting documentation that substantiates the amounts reported on claim forms submitted to DHA. SCS was unable to provide supporting documentation for several line items on its submitted claim forms: telephone, consumables, emergency food, and training. The resulting effect for the lack of supporting documentation equals \$4,062 in submitted expenses that cannot be confirmed during our testing for March 2017, June 2017, and September 2017 claim forms in the amounts of \$960, \$242, and \$2,860, respectively. We consider the total \$4,062 unsupported expenses as questioned costs. The following table summarizes the identified questioned costs for lack of supporting documentation.

Table I: Summary of Questioned Costs – Lack of Supporting Documentation

Cost Category	March 2017	June 2017	September 2017	Total Questioned Costs Claimed
Telephone	\$ 347	47	520	914
Consumables	413		2,058	2,471
Emergency Food	200	195	98	493
Training			184	184
Total	\$ 960	242	2,860	4,062

Recommendation

DHA should ensure and confirm SCS maintains supporting documentation for all expenses submitted on DHA claim forms in order to allow reimbursement. DHA should contact SCS to develop a resolution to resolve the questioned costs totaling \$4,062.

DHA's Management Response

DHA reiterates the response from Finding Number 2b. DHA acknowledges the finding and will work with SCS in resolving the questioned costs. Since the engagement, SCS has notified DHA that they are working on locating supporting documents to address the questioned costs. In addition, SCS has notified DHA that they have changed their processes to ensure that their Electronic Claim Forms (ECF) have all relevant receipts attached.

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b. Internet Access Payments for Missing Property

Comment

During the engagement, we identified two tablets that were not recovered from former SCS employees after the employees separated from the organization (see Finding 2c *Capital Asset Policy*). SCS was unaware the tablets were missing and continued to make monthly payments for both internet service fees and equipment costs. We estimate the costs related to the missing tablets to be \$690. We consider the \$690 for the two missing tablets and associated costs as disallowed costs. The following table summarizes the cost of the missing tablets and the associated internet service fees. See Table VI, *Summary of Disallowed Costs* on page 11 of this attachment.

Table II: Summary of Disallowed Missing Tablets and Associated Costs

	<u>Missing Tablet #1</u>	<u>Missing Tablet #2</u>	<u>Total</u>
Tablet Cost	\$ 240	240	480
Internet Access Fees	105	105	210
Total	\$ 345	345	690

Recommendation

DHA should require SCS develop an exit interview policy and checklist which ensures organizational property is recovered upon an employee's departure from the organization. In addition, DHA should contact SCS to develop a resolution to resolve the disallowed costs totaling \$690 related to the missing tablets.

DHA's Management Response

DHA reiterates the response from Finding Number 2a. DHA acknowledges the finding and will work with SCS in resolving the disallowed costs.

c. Participant Payments

Comment

SCS reported ineligible participants for the monthly claim forms selected for testing. SCS reported non-qualifying residents residing in the cities of Sacramento and Elk Grove and the Sacramento Employment and Training Agency (SETA) participants already claimed from funding from SETA on the "Direct Services" line item of the claim forms reviewed. Per section II (Program Description) of Exhibit A of the Agreement, "The participants that the CONTRACTOR serves shall reside in Galt and rural South

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Sacramento County areas, including the River Delta, Isleton, Walnut Grove, Locke, and Courtland.” SCS reported non-qualifying residents and SETA clientele for its: March 2017, June 2017, September 2017, and January 2018 claim forms. March 2017’s claim form reported six out of eight non-qualifying participants; June 2017’s claim form reported eight out sixteen non-qualifying participants; September 2017’s claim form reported fifteen out of seventeen non-qualifying participants; and January 2018’s claim form reported one non-qualifying participant.

The claimed amounts for the non-qualifying participants and SETA claimants for March 2017, June 2017, September 2017, and January 2018 was \$790, \$1,500, \$2,639, and \$150, respectively. The total amount of ineligible participants billed for these months was \$5,079. SCS interpreted rural South Sacramento County as the area South of Downtown Sacramento and provided services to individuals in the cities of Sacramento and Elk Grove. We consider the \$5,079 claims for ineligible clients as disallowed costs. The following table summarizes the identified disallowed direct service costs. See Table VI, *Summary of Disallowed Costs* on page 11 of this attachment.

Table III: Summary Schedule of Disallowed Direct Services Costs

<u>Ineligible Participants</u>	<u>March 2017</u>	<u>June 2017</u>	<u>September 2017</u>	<u>January 2018</u>	<u>Total</u>
City of Sacramento	\$		149		149
City of Elk Grove	790	1,500	1,490	150	3,930
SETA			1,000		1,000
Total	\$ 790	1,500	2,639	150	5,079

Recommendation

DHA should ensure SCS implement policies and procedures to document participants submitted for reimbursement are for qualified individuals per the Agreements. In addition, DHA should contact SCS to resolve the disallowed costs of \$5,079.

DHA’s Management Response

DHA reiterates the response from Finding Number 2a. DHA acknowledges the finding and will work with SCS in resolving the disallowed costs. DHA previously requested SCS to report all of its SETA and DHA participants on its monthly invoice claims for informational purposes. Since the ECF was not designed to report non-DHA participants, there appeared to be miscommunication regarding the claiming process for the months in question. SCS no longer includes SETA participants on its monthly invoice claims to DHA.

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4. General Ledger

a. Fiscal Compliance – Financial Reporting

Comment

SCS did not maintain a sufficient audit trail to identify which expenditures were eligible for reimbursement from DHA funds. Specifically, SCS did not account for expenditures separately in the general ledger; therefore, we were unable to determine if claimed costs were allowable and program related. SCS's management is responsible for ensuring accurate financial reporting; compliance with program agreements, County regulations, and applicable program guidelines; and the adequacy of the general ledger system to accumulate and segregate reasonable, allocable, and allowable expenditures, allowing for a clear audit trail for expenses.

Recommendation

DHA should ensure SCS maintain a clear audit trail for all expenses submitted on DHA claim forms in order to allow reimbursement. The audit trail should facilitate the tracing of expenditures claimed on reimbursement claims to the accounting records and supporting source documents.

DHA's Management Response

DHA acknowledges the finding and will work with SCS to ensure invoice claims submitted can be traced to their financial records and supporting documentation. In 2017, DHA began providing technical assistance to SCS in regards to the proper submittal of their invoice claims. DHA will utilize the findings and recommendations outlined in this report to provide ongoing and more comprehensive technical assistance to help mitigate future issues. Since the engagement, SCS has notified DHA that they have been working on updating their accounting system to have separate accounts for each of its funding sources, including DHA. In addition, SCS has notified DHA that they are working to ensure that financial activities recorded in their accounting system match their funding source reports and claims.

b. Late Fee Charges

Comment

SCS paid two late charges and a past due fee for its September 2017 and January 2018 communication bills. The two late fee charges were \$9 each and the past due fee charge was \$2. Invoices should be paid by required due dates in order to avoid late fees and penalties. Late fees and penalties are avoidable expenses that do not add value to the operation and purpose of the agreement. SCS contributes the late fees incurred to

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receiving reimbursements for submitted monthly claim forms late from DHA. We consider the total late charges and past due fee in the amount of \$20 (\$9 + \$9 + \$2) as disallowed costs for the period July 1, 2017 to January 31, 2018. See Table IV, *Summary of Disallowed Costs* on page 11 of this attachment.

Recommendation

DHA should advise SCS pay its bills on time to avoid any late fees and penalties, and SCS should not include late fees and penalties on its monthly claims. All expenditure claimed should not include any late fee and penalties. Additionally, DHA should contact SCS to develop a resolution to resolve the disallowed costs of \$20.

DHA's Management Response

DHA acknowledges the finding and will work with SCS in resolving the disallowed costs.

5. Cost Allocation

Comment

SCS did not have a written cost allocation or indirect methodology plan. Cost allocation and indirect methodology plans help organizations to properly track and report eligible indirect and allocated expenses amongst its various programs. During our testing, we noted SCS billed 100% of the costs for shared operational services such as: administrative personnel services, pest service, lawn care, and communication charges to the agreements with DHA. Because SCS did not have a written cost allocation or indirect methodology plan and other proper supporting documentation for the shared costs claimed to DHA, we consider all shared costs claimed by SCS as questioned costs.

One of the shared costs claimed by SCS was salaries and benefit expenses line item. SCS claimed salaries and benefit expenses in amounts of \$62,471 for the period January 1, 2017 to June 30, 2017 and \$105,921 for the period July 1, 2017 to January 31, 2018, respectively totaling \$168,392 questioned costs.

Another shared costs claimed by SCS was administrative and overhead expenses line item. SCS claimed administrative and overhead expenses in amount of \$17,194 for the period January 1, 2017 to June 30, 2017 and \$28,513 for the period July 1, 2017 to January 31, 2018, respectively. Therefore, we consider all SCS's claimed administrative and overhead expenses other than the \$710 (\$690 + \$20) disallowed costs identified in Finding 3b and 4b in amount of \$44,997 (\$17,194 + \$28,513 - \$710) as questioned costs. The \$44,997 questioned administrative and overhead expenses included \$3,642 questioned costs identified in Finding 3a.

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The following table summarizes the identified questioned direct service costs.

Table IV: Summary of Questioned Shared Costs

Expense Category	Questioned Costs
Salaries and Benefits	\$ 168,392
Administration and Overhead	44,997
Total	\$ 213,389

Recommendation

We recommend DHA require SCS to develop, adopt, and implement a cost allocation or indirect methodology plan to split allocated costs among the different programs managed by SCS. In addition, DHA should contact SCS to develop a resolution to resolve the issue about shared costs claimed.

DHA's Management Response

DHA reiterates the responses from Finding Numbers 2a and 4a. DHA will work with SCS in developing, adopting, and implementing a cost allocation plan.

6. Funding Source

Comment

We noted that SCS does not separately track program expenses for the different types of funding sources received. Proper internal controls should include separately tracking expenses by funding source. Separately tracking funding sources will assist SCS with preparing its expense reports and/or claims to the County and other agencies. Inadequate tracking of expenses can lead to expense report errors, omissions, and/or non-compliance with other funding agreements.

Recommendation

DHA should require SCS separately track its DHA program expenses from other funding sources.

DHA's Management Response

DHA reiterates the responses from Finding Numbers 2a, 4a, and 5. Since the engagement, SCS has notified DHA that they have been tracking receipts and expenses from their funding sources separately in their accounting system.

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7. Summary of Questioned and Disallowed Costs

Table V: Summary of Questioned Costs

For the Period January 1, 2017 to June 30, 2017:

Expense Category	SCS's Claims	Amount Tested	Questioned Costs		
			No Supporting Document (i)	Inadequate Cost Allocation (ii)	Projection for Claims Not Tested (iii)
Salaries & Benefits	\$ 62,471	23,955		62,471	
Administrative & Overhead	17,194	4,459	807	16,387	
Direct	21,595	11,352	395		356
Total			\$ 1,202	78,858	356

For the Period July 1, 2017 to January 31, 2018:

Expense Category	SCS's Claims	Amount Tested	Questioned Costs		
			No Supporting Document (i)	Inadequate Cost Allocation (ii)	Projection for Claims Not Tested (iii)
Salaries & Benefits	\$ 105,921	30,827		105,921	
Administrative & Overhead	28,513	6,764	2,835	24,968	
Direct	20,259	4,749	25		82
Total			\$ 2,860	130,889	82

(i) See Finding 3a, Supporting Documentation for Claim

(ii) See Finding 5, Cost Allocation

(iii) The projected questioned costs are extrapolated based on our testing with the assumption that the same average error rate is consistent throughout the entire population for the contract periods. If additional invoices were selected for testing, the noted projected questioned costs would likely be different.

For the period January 1, 2017 to June 30, 2017, we tested a total of \$11,352 out of the \$21,595 direct services expenses claimed by SCS. Of the amount tested, we identified \$395 or 3.48% ($\$395 / \$11,352$) in questioned costs. Accordingly, of the remaining untested direct expenses claimed totaling \$10,243 ($\$21,595 - \$11,352$), we extrapolated \$356 ($3.48\% \times \$10,243$) to be projected questioned costs.

For the period July 1, 2017 to January 31, 2018, we tested a total of \$4,749 out of the \$20,259 direct expenses claimed by SCS. Of the amount tested, we identified \$25, or

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0.53% (\$25 / \$4,749) in questioned costs. Accordingly, of the remaining untested direct expenses claimed totaling \$15,510 (\$20,259 - \$4,749), we extrapolated \$82 (0.53% X \$15,510) to be projected questioned costs.

Table VI: Summary of Disallowed Costs

For the Period January 1, 2017 to June 30, 2017:

Expense Category	A SCS's Claims	B Amount Tested	C Ineligible Costs	Disallowed Costs	
				D C / B Projection Rate	E D * (A - B) Projection for Claims Not Tested (iii)
Direct	\$ 21,595	11,352	2,290 (i)	20.17%	2,066
Total			\$ 2,290		2,066

For the Period July 1, 2017 to January 31, 2018:

Expense Category	A SCS's Claims	B Amount Tested	C Ineligible Costs	Disallowed Costs	
				D C / B Projection Rate	E D * (A - B) Projection for Claims Not Tested (iii)
Administrative & Overhead	\$		710 (ii)		
Direct	20,259	4,749	2,789 (i)	58.73%	9,108
Total			\$ 3,499		9,108

- (i) See Finding 3c, Participant Payments
- (ii) Includes \$210 ineligible internet fee and \$480 missing equipment, see Finding 3b, Internet Access Payments for Missing Property and \$20 late fees, see Finding 4b, Late Fee Charges.
- (iii) The projected disallowed costs are extrapolated based on our testing with the assumption that the same average error rate when applied to each invoice in the population for the agreement term will be consistent. Had we tested additional invoices, the noted projected disallowed costs would likely be different.

For the period January 1, 2017 to June 30, 2017, we tested a total of \$11,352 out of the \$21,595 direct services expenses claimed by SCS. Of the amount tested, we identified \$2,290, or 20.17% (\$2,290 / \$11,352) in disallowed costs. Accordingly, of the remaining

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untested direct expenses claimed totaling \$10,243 (\$21,595 - \$11,352), we extrapolated \$2,066 (20.17% X \$10,243) to be projected disallowed costs.

For the period July 1, 2017 to January 31, 2018, we tested a total of \$4,749 out of the \$20,259 direct expenses claimed by SCS. Of the amount tested, we identified \$2,789, or 58.73% (\$2,789 / \$4,749) in disallowed costs. Accordingly, of the remaining untested direct expenses claimed totaling \$15,510 (\$20,259 - \$4,749), we extrapolated \$9,108 (58.73% X \$15,510) to be projected disallowed costs. See Schedule III, *Schedule of Questioned and Disallowed Costs*.

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For the Period from January 1, 2017 to June 30, 2017

Agreement #DHA-SCS-01-17

Budget Items	<u>Budget</u> ⁽ⁱ⁾	<u>SCS's Invoice Claims</u> ⁽ⁱⁱ⁾	<u>Questioned Costs</u> ⁽ⁱⁱⁱ⁾	<u>Disallowed Costs</u> ^(iv)
Program Expenses				
Salaries and Benefits	\$ 62,471	62,471	62,471	
Administrative and Overhead	17,194	17,194	17,194	
Direct Services	21,595	21,595	395	2,290
Total Program Expenses	<u>\$ 101,260</u>	<u>101,260</u>	<u>80,060</u>	<u>2,290</u>
Projection for Claims Not Tested			356 ^(v)	2,066 ^(v)
Total			<u>\$ 80,416</u>	<u>4,356</u>

⁽ⁱ⁾ Budget column represents the second budget revision for the contractual agreement between the Department of Human Assistance (DHA) and South County Services, Inc. (SCS).

⁽ⁱⁱ⁾ SCS' Invoice Claims column represents the total invoice claims submitted to DHA by SCS.

⁽ⁱⁱⁱ⁾ Questioned Costs column represents the questioned costs identified during our engagement. For consideration of questioned costs, see Finding 5 in Attachment I, *Comments and Recommendations*.

^(iv) Disallowed Costs column represents the disallowed costs identified during our engagement. For consideration of disallowed costs, see Finding 3c in Attachment I, *Comments and Recommendations*.

^(v) Amount represents the amount projected as questioned and disallowed costs for the remaining monthly invoice claims not selected for testing. For consideration of projected questioned and disallowed costs, see Finding 3c and 7 in Attachment I, *Comments and Recommendations*.

County of Sacramento
Department of Human Assistance
South County Services Fiscal Monitoring
Schedule of Questioned and Disallowed Costs
For the Period from July 1, 2017 to January 31, 2018

Agreement #DHA-SCS-01-18

Budget Items	<u>Budget</u> ⁽ⁱ⁾	<u>SCS's Invoice Claims</u> ⁽ⁱⁱ⁾	<u>Questioned Costs</u> ⁽ⁱⁱⁱ⁾	<u>Disallowed Costs</u> ^(iv)
Program Expenses				
Salaries and Benefits	\$ 105,921	105,921	105,921	
Administrative and Overhead	36,339	28,513	27,803	710
Direct Services	20,260	20,259	25	2,789
Total Program Expenses	<u>\$ 162,520</u>	<u>154,693</u>	<u>133,749</u>	<u>3,499</u>
Projection for Claims Not Tested			82 ^(v)	9,108 ^(v)
Total			<u>\$ 133,831</u>	<u>12,607</u>

⁽ⁱ⁾ Budget column represents the first budget revision for the contractual agreement between the Department of Human Assistance (DHA) and South County Services, Inc. (SCS).

⁽ⁱⁱ⁾ SCS' Invoice Claims column represents the total invoice claims submitted to DHA by SCS.

⁽ⁱⁱⁱ⁾ Question Costs column represents the questioned costs identified during our engagement. For consideration of questioned costs, see Finding 5 in Attachment I, *Comments and Recommendations*.

^(iv) Disallowed Costs column represents the disallowed costs identified during our engagement. For consideration of disallowed costs, see Finding 3c in Attachment I, *Comments and Recommendations*.

^(v) Amount represents the amount projected as questioned and disallowed costs for the remaining monthly invoice claims not selected for testing. For consideration of projected questioned costs, see Finding 3c and 7 in Attachment I, *Comments and Recommendations*.

County of Sacramento
Department of Human Assistance
South County Services Fiscal Monitoring
Summary Schedule of Questioned and Disallowed Costs
For the Period from January 1, 2017 to January 31, 2018

	Period		
	January 1, 2017 to June 30, 2017	July 1, 2017 to January 31, 2018	Grand Total (iii)
QUESTIONED COSTS ⁽ⁱ⁾			
No Supporting Document	\$ 1,202	2,860	4,062
Inadequate Cost Allocation	78,858	130,889	209,747
Projected Questioned Costs	<u>356</u>	<u>82</u>	<u>438</u>
Total	<u>\$ 80,416</u>	<u>133,831</u>	<u>214,247</u>
DISALLOWED COSTS ⁽ⁱ⁾			
Ineligible Costs	\$ 2,290	3,499	5,789
Projected Disallowed Costs	<u>2,066</u>	<u>9,108</u>	<u>11,174</u>
Total	<u>\$ 4,356</u>	<u>12,607</u>	<u>16,963</u>

^(I) For consideration of questioned and disallowed costs identified from transaction testing, invoice claim differences, cost allocation deficiencies, and projections, see Finding 5 in Attachment I, *Comments and Recommendations*. For line item details of questioned and disallowed costs, see Schedules I and II, *Schedule of Questioned and Disallowed Costs*.

^(II) Amounts represent the sum of the questioned and disallowed costs and projected questioned and disallowed costs identified during our engagement for Agreement Numbers DHA-SCS-01-17 and DHA-SCS-01-18.