

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, 2021
TO JUNE 30, 2022



Audit Committee Submittal Date: 04/20/2023

SUMMARY

Background

The First 5 Sacramento Commission (Commission) has a contractual agreement (Agreement) with the County of Sacramento (County) Department of Health Services (DHS), Women, Infants, and Children (WIC) Program (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 of Sacramento, 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, 2021 to June 30, 2022.

Summary

Based on our audit, Project costs complied with the Agreement for the period July 1, 2021 to June 30, 2022. Also, DHS has adequate internal controls to ensure Project costs are in compliance with the Agreement. However, we noted an exception regarding time study supporting documentation for subcontractor monitoring.



County of Sacramento

January 11, 2023

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 Department of Health Services' (DHS) Women, Infants, and Children (WIC) Program, Community Lactation Assistance Project (Project) funded by First 5 Sacramento Commission's (Commission) contractual agreement (Agreement) for the period July 1, 2021 to June 30, 2022, contract Number 7201500-22/24-085R.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2021 to June 30, 2022.

DHS' management is responsible for design, implementation, and maintenance of effective internal control to ensure the Project's compliance with the Agreement. This report is applicable solely to the Project and Agreement referred 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, 2021 to June 30, 2022.

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 Control – We evaluated DHS’ internal control over the Project. We also obtained the Project’s written internal control policies and procedures for purchasing, vendor payments, payroll, 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 – We obtained the payroll expenditure ledger detail for the Project. We selected and tested three (3) salary and benefits expenditure transactions from the selected one (1) employee at fourth quarter of the period and tested for compliance with the Agreement, applicable laws, and regulations. The selected sample size is \$19,522 of \$20,668 (94%) for the project’s personnel expenditures in the fourth quarter of the period. Total project personnel expenses claimed for the period was \$69,238.

We recalculated the samples based on payroll registers, timesheets, activity reports, and DHS’ cost allocation methodology. We traced these transactions to the claim submission and recalculate the related benefit claims.

7. Non-Payroll Expenditures – We obtained expenditure ledger detail for the Project and randomly selected a sample of 25 non-payroll expenditure transactions from the Project and tested for compliance with the Agreement, applicable laws, and regulations. The sample included a variety of expenditures such as mileage reimbursements, training costs, and supplies. We tested a total of \$4,617 out of \$18,778 (25%) of project operating costs. We traced them to the supporting documentation such as vendor invoices, receipts, journal entries, and DHS’ cost allocation calculation.

We also recalculated indirect costs and tested for compliance with the Agreement, applicable laws, and regulations. Total indirect costs tested was \$2,146 out \$7,021 (31%) total indirect costs claimed for the period. We recalculated indirect costs based on DHS’ cost allocation methodology and Commission’s indirect cost policy.

8. Subcontractor Monitoring – We reviewed DHS’s sub-recipient Fiscal Monitoring Guidelines.

We tested a total of \$28,098 of \$221,211 (13%) 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 (IBCLC) to provide lactation services. Accordingly, we obtained expenditure ledger details for lactation consultants and selected and tested six (6) lactation consultants from the fourth quarter.

We 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 \$21,857 of \$34,253 (63%) for the project’s lactation consultant expenditures in the fourth quarter of the period. Total lactation consultant expenditures claimed for the period was \$156,441.

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

In connection with this audit, there are certain disclosures that are necessary pursuant to *Generally Accepted Government Auditing Standards*.

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 *Generally Accepted Government Auditing Standards’* 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, 2021 to June 30, 2022. Also, DHS has adequate internal controls to ensure the Project costs are in compliance with the Agreement. However, we noted an exception regarding time study supporting documentation for subcontractor monitoring. See ATT 2 – *Current Finding and Recommendation*.

DHS’ management response to the finding identified during our engagement is described in ATT 2 – *Current Finding and Recommendation*. We did not perform procedures to

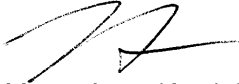
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validate DHS' management response to the finding and, accordingly, we do not express an opinion on the response to the finding.

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,

BEN LAMERA
DIRECTOR OF FINANCE



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

Enclosures:

ATT 1 - Schedule of Approved Budget, Expenditures Claimed, and Amount Tested
ATT 2 - Current Finding and 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 Approved Budget, Expenditures Claimed, and Amount Tested
 For the Period July 1, 2021 to June 30, 2022

<u>Program Costs</u>	<u>Approved Budget</u>	<u>Expenditures Claimed</u>	<u>Amount Tested</u>
Personnel Costs	\$ 68,804	69,238 ⁽¹⁾	19,522
Program Operating Costs	18,854	18,778 ⁽²⁾	4,617
Subcontractors/Consultants	380,710	377,652	49,955
Indirect Costs	<u>8,766</u>	<u>7,021</u>	<u>2,146</u>
Total Costs	<u><u>\$ 477,134</u></u>	<u><u>472,689</u></u>	<u><u>76,240</u></u>

- (1) Line item expenditures claimed are over the approved line item budget. However, First 5 Sacramento Commission approved these line item expenditures as the over budgeted amount did not exceed 10% of the line item budgets and total expenditures claimed did not exceed total approved budget.
- (2) Amount includes \$13,500 in accrued audit costs.

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Review of Subcontractor Monitoring

Condition

We tested the Community Lactation Assistance Project (Project)'s only subcontractor. As required by the First 5 Sacramento Commission's (Commission) contractual agreement (Agreement), the subcontractor should prepare functional time studies twice a year for its employees.

Based on inquiry with Department of Health Services (DHS), the subcontractor maintained functional time study reports for one month in the second quarter and one month in fourth quarter for this period. We selected and requested two (2) out of five (5) employee's time study supporting documentation for fourth quarter claims. The subcontractor has provided one (1) out of two (2) employees' time study supporting documentations to DHS during this review. Per DHS, the subcontractor was not able to provide time study for the one (1) employee, as there was a misunderstanding by that employee regarding the need to complete a time study. As a result, the subcontractor's time study reports for this one (1) employee were not maintained for both second and fourth quarters during this period.

It appears that DHS may not have reviewed time study reports to ensure that the subcontractor maintained functional time study for all employees as required by contractual agreements. We did not find any misstated claims related to the subcontractor's payroll during this audit.

Criteria

Per the Agreement, *"Contractor [DHS] shall monitor and reimburse subcontractor for expenses incurred under MOU."*

According to the Agreement at Exhibit C, in section three, *"Staff that allocate a share of cost to the contract and are not 100% funded by First 5 (Commission), are to maintain a functional time study at least twice a year."*

Effect

DHS was not in compliance with its agreement with the Commission.

Recommendation

We recommend DHS ensure that the subcontractor maintains functional time study for all employees to comply with the Agreement. Additionally, DHS should 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

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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.

DHS' Management's Response

As part of recent departmental changes which clarified the required supporting documentation subcontractors are to provide with submitted invoices, DHS WIC has communicated with its subcontractor the requirement of maintaining and submitting functional time studies for all staff claiming partial time to funding from First 5 Sacramento. The subcontractor has been directed to send completed time studies of First 5 funded staff to DHS WIC as supporting documentation for the corresponding monthly invoice. The subcontractor is to send DHS WIC these time studies at minimum twice a year for review and comparison against the time claimed in the invoice. As part of DHS' monitoring procedures, the Breastfeeding Program Coordinator overseeing the grant at DHS WIC will review the time study documentation against the actual claim to ensure that there are no differences when compared to the submitted claim. Any discrepancies will be researched and resolved in a timely manner.