

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 JULY 1, 2023
TO JUNE 30, 2024**



Audit Committee Submittal Date: 03/20/2025

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 assess the Project's compliance with the Agreement for the period July 1, 2023 to June 30, 2024.

Summary

Based on our procedures, we noted some deficiencies related to DHS' 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

February 11, 2025

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, 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)'s contractual agreement (Agreement) for the period July 1, 2023 to June 30, 2024, contract Number 7201500-22/24-085R A1.

This agreed-upon procedures engagement was conducted to assess the Project's compliance with the Agreement for the period July 1, 2023 to June 30, 2024.

DHS' management is responsible for the Project's compliance with the Agreement. The sufficiency of the procedures is solely the responsibility of DHS' management. Consequently, we make no representation regarding the sufficiency of the procedures listed below and page two and three either for the purpose for which this report has been requested or for any other purposes. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

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 and 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 that DHS may need to update its contract monitoring policies and procedures related to subcontractor monitoring. See ATT 2 - *Current Finding and Recommendation*.

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 numbers 5, 6, and 7.

Result: We noted some exceptions related to DHS subcontractor’s overtime allocation and a clerical error on payroll cost allocation calculation as described in procedure number 8. No other exceptions were noted as a result of these procedures.

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 were claimed only for DHS’ subcontractor/consultants for the Project for the period July 1, 2023 to June 30, 2024. Therefore, we tested payroll expenditures as part of procedure number 8 below.

Result: See results for procedure number 7.

6. Non-Payroll Expenditures – We obtained expenditure ledger detail for the Project, selected a sample of DHS’ non-payroll expenditure transactions, a total of \$647 of \$15,851 for the Project, and traced them to the supporting documentation such as vendor invoices, receipts, journal entries, and cost allocation calculation to test for compliance with the Agreement. The total claim amount of \$15,851 included this agreed-upon procedures fee of \$15,042.

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

7. Subcontractor/Consultants Monitoring – We reviewed the Project’s written subcontractor monitoring policy and procedures. DHS had one subcontractor, Community Resources Project, Inc. (CRP) during the period under review. We obtained and reviewed reconciliation between CRP invoice claims submitted to DHS and its general ledger for the selected months: October through December 2023. We also selected a sample of CRP’s expense transactions, a total of \$29,791 of \$208,287 (14%) of subcontractor expenses and tested for compliance with the Agreement.

Additionally, we noted that the Project contracted with International Board Certified Lactation Consultants (Consultants) to provide lactation services. Accordingly, we obtained expenditure ledger details for the Consultants and selected 27 Consultants’ payroll expenditure transactions from the second quarter and tested for compliance with the Agreement. The selected sample size was \$14,028 of \$52,667 (27%) for the

Mr. Timothy Lutz, Director
February 11, 2025

Project's Consultants expenditures in the second quarter of the period under review. Total Consultants' expenditures claimed for the period under review was \$235,081.

Result: We noted exceptions related to CRP's overtime allocation and vacation accruals. We also noted a clerical error in calculating payroll cost allocation rate for an employee for November 2023 invoice claim to DHS. See ATT 1 - *Schedule of Amounts Budgeted, Claimed, Tested, and Disallowed* and ATT 2 - *Current Finding and Recommendation*.

We did not note any exception as a result of our procedures performed for the Consultants' expenses.

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

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

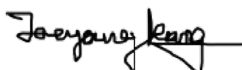
Also, see ATT 3 – *Current Status of Prior Recommendations* for status of prior performance audit recommendations.

This agreed-upon procedures engagement was conducted in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States 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 Agreements 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 Recommendations*

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, and Disallowed

For the Period July 1, 2023 to June 30, 2024

<u>Program Costs</u>	<u>Amount Budgeted</u>	<u>Amount Claimed</u>	<u>Amount Tested</u>	<u>Amount Disallowed</u>
Program Operating Costs	\$ 17,800	15,851 ⁽¹⁾	647	0
Subcontractors/Consultants	<u>459,334</u>	<u>443,368</u>	<u>43,819</u>	<u>109</u>
Total Costs	<u>\$ 477,134</u>	<u>\$ 459,219</u>	<u>44,466</u>	<u>109</u> ⁽²⁾

1) The amount includes \$15,042 in accrued agreed-upon procedures costs.

2) The amount represents net over claimed salaries and benefit expenditures due to improper cost allocation of overtime, inaccurate cost allocation calculation, inappropriate vacation accrual calculation, and inaccurate rate used for vacation accrual calculation. . See Finding #1 at ATT 2 - *Current Findings and Recommendations* .

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
Current Finding and Recommendation

For the Period July 1, 2023 to June 30, 2024

1. Subcontractor Expenditure Claims

Condition

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

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

- a. CRP charged overtime spent 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 and vice versa resulting in over/(under) claims of salary expenses.
- b. CRP inaccurately calculated payroll cost allocation percentage based on time study for one employee for November 2023 invoice claim resulting in over claiming of payroll expenses.
- c. CRP claims its employee vacation expenses on an accrual basis as part of benefit expenses. Based on our review, CRP inappropriately included overtime in calculating vacation accrual expenses. In addition, for two employees' vacation accrual we tested for December 2023 claim, CRP used prior pay rates rather than pay rate in effect during that month resulting in under claim of benefit expenses.

As a result of the above conditions, CRP over claimed a net amount of \$109. We consider this net amount of over claiming as disallowed costs.

Criteria

DHS should thoroughly review CRP's invoice claims for mathematical accuracy and compliance with the Agreement between DHS and the Commission.

Overtime spent for a particular funding source should be directly charged to the applicable funding sources rather than spreading the costs based on percentage of regular hours spent between different funding sources.

CRP should ensure mathematical accuracy when calculating cost allocations.

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
Current Finding and Recommendation

For the Period July 1, 2023 to June 30, 2024

Overtime incurred should not be included in the calculation of vacation accruals. In addition, correct pay rates in effect should be used in vacation accrual expense calculations.

Effect

CRP's inappropriate invoice claiming practices and errors resulted in disallowed costs of \$109 and potentially additional disallowed costs, if not corrected in a timely manner.

Recommendation

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

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

Management Response

In reviewing the overages noted by the auditor, it appears that the invoice template does not adequately account for overtime payments. The invoice template was originally developed by DHS to help CRP WIC provide all the supporting documentation needed to support their invoice and to address previous issues with how salaries and benefits were being claimed. DHS will revise the invoice template to allow for overtime pay to be allocated to the appropriate funding source instead of it being split among funding sources based on the employee's time study.

In addition, CRP has agreed to return the disallowed costs, as of February 5, 2025.

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
Current Status of Prior Recommendations

For the Period July 1, 2023 to June 30, 2024

**FROM THE PRIOR PERFORMANCE AUDIT FOR THE PERIOD FROM JULY 1, 2022,
TO JUNE 30, 2023, DATED February 27, 2024**

1. Internal Controls Over Subcontractor Monitoring

Prior Recommendation

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

Current Status

It appears that this recommendation has been implemented. However, we noted an exception related to subcontractor invoice claiming. See ATT 1 - *Current Finding and Recommendation*.

2. Subcontractor Expenditure Claims

Prior Recommendation

We recommend DHS contact CRP to resolve the disallowed/questioned costs.

Current Status

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