

COUNTY OF SACRAMENTO

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

INTERNAL AUDIT REPORT

**CONTRACT SELECTION AND MONITORING
PROCESS
PERFORMANCE AUDIT**

DEPARTMENT OF HUMAN ASSISTANCE



Audit Committee Submittal Date 05/15/2025

SUMMARY

Background

The County of Sacramento Department of Human Assistance (DHA) plan, implement, and oversee a spectrum of programs and services designed to move people from public assistance to independence by contracting with various third-party service organizations.

DHA had 140, 126, and 97 executed contract agreements with contractors and subrecipients in fiscal years (FY) 2020/21, 2021/22 and 2022/23, respectively. The budgeted amounts of agreements totaled \$116 million, \$127 million and \$96 million for FY 2020/21, 2021/22 and 2022/23, respectively.

Sacramento Countywide Risk Assessment Study assessed DHA's contract selection and monitoring process as a high-risk area for Sacramento County operations. Accordingly, we conducted this performance audit to assess the adequacy of DHA's contract selection and monitoring process of its contractors and subrecipients.

Audit Objective

To assess and identify key processes and controls for DHA's contract selection and monitoring process and determine that the key controls identified are functioning as intended for the period July 1, 2020, through October 31, 2022.

Summary

Based on our audit, we noted several exceptions and improvement recommendations regarding DHA's internal control activities over contract selection and monitoring process for contracts awarded for the period from July 1, 2020 to October 31, 2022.

Department of Finance

Chad Rinde

Director

**County of Sacramento****Divisions**

Auditor-Controller

Consolidated Utilities Billing &
Service

Investments

Revenue Recovery

Tax Collection & Licensing

Treasury

February 25, 2025

Ethan Dye, Director
Department of Human Assistance
County of Sacramento
1825 Bell Street, Suite 200
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The Sacramento Countywide Risk Assessment Study assessed the Sacramento County (County) Department of Human Assistance (DHA)'s contract selection and monitoring processes as a high-risk area. Accordingly, we have audited DHA's internal controls related to its contract selection and monitoring processes for the period July 1, 2020 through October 31, 2022.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*, issued by the Comptroller General of the United States of America. 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.

The objectives of the audit are to assess the adequacy of DHA's internal controls over contract selection and monitoring of its contractors/subrecipients for the period July 1, 2020 through October 31, 2022.

DHA's management is responsible for the design, implementation, and maintenance of effective internal controls to ensure compliance with Federal and State regulatory requirements, all applicable laws and regulations, and contractual agreements.

The scope of our audit will include review and test of DHA's internal control activities and processes for contract selection and monitoring for contracts awarded from July 1, 2020 to October 31, 2022.

The audit methodology utilized to conduct this performance audit included:

Internal Control Review

- We conducted a preliminary survey of the internal control environment and identified key processes and controls for DHA's contractor/subrecipient contract processes, including processes and controls for contract award process, contract administration, invoice payment/claim submission, contract monitoring and compliance with the Sacramento County Contract Policy.

Document Review:

- We reviewed the Sacramento County Contract Policy.
- We reviewed DHA's written policies and procedures surrounding contractors/subrecipients' pre-award contracts selection process.
- We reviewed DHA's written policies and procedures surrounding contractors/subrecipients awards and program and fiscal monitoring.
- We reviewed other documents related to contractor/subrecipient pre-award and contract progress for proper recording and purpose consistent with contract terms, and Title 2 Code of Federal Regulations (2 CFR Part 200) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (i.e. Uniform Guidance).
- We reviewed DHA's annual risk assessment of its contractors/subrecipients.
- We reviewed DHA's fiscal and program monitoring reports.
- We followed-up on DHA's corrective action plans based on results of program and fiscal monitoring reports.

Testing:

- We tested the risk assessment scoring for 25 contract agreements for reasonableness and compliance with DHA risk assessment plan.
- We tested 30 contractor/subrecipient contract agreements for compliance with Uniform Guidance, and applicable laws, regulations, and statutes.
- We tested 30 contractor and subrecipient contract agreements for compliance with the Sacramento County Contract Policy.

Ethan Dye, Director
February 25, 2025

- We tested DHA's invoice claims and payments for 15 contract agreements with contractors/subrecipients for compliance with the respective contracts, completeness, reasonableness, and the use of proper accounting methods.
- We tested DHA's program and fiscal monitoring for 15 contractors/subrecipients to verify whether controls are in place and functioning as intended.

Based on our audit, we noted several exceptions and improvement recommendations as shown in the ATT 1 – *Schedule of Findings and Recommendations* regarding DHA's internal control activities over contract selection and monitoring process for contracts awarded for the period from July 1, 2020 to October 31, 2022.

DHA's management responses to the recommendations identified during our engagement are described in ATT 1 - *Schedule of Findings and Recommendations*. We did not perform procedures to validate DHA's management responses to the recommendations and, accordingly, we do not express opinions on the responses to the recommendations.

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, and should not be used for any other purpose. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

CHAD RINDE
DIRECTOR OF FINANCE



By: Tae-Young Kang, CPA
Audit Manager

Attachment:

ATT 1 – *Schedule of Findings and Recommendations*

County of Sacramento
Department of Human Assistance (DHA)
Contract Management
Performance Audit
Schedule of Findings and Recommendations

For the Period from July 1, 2020 to October 31, 2022

1. INTERNAL CONTROL REVIEW

Condition

Based on our review of Department of Human Assistance (DHA)'s Contract Monitoring Policies and Procedures, we noted the following suggested areas for better practice:

Risk Assessment Process and Monitoring – DHA utilizes the risk assessment process to determine risk levels for contractors and subrecipients with executed contract agreements with DHA for contracted services. DHA monitors its contractors/subrecipients based on the risk levels determined by its annual risk assessment.

During our procedures, we noted that DHA updated risk factors considered and risk scoring in its risk assessment matrix; however, its contract monitoring policies and procedures were not updated reflecting the changes.

In addition, although DHA monitors fiscal activities of those contractors or subrecipients assessed as high-risk by having Department of Finance, Internal Audit Unit (IAU) perform fiscal monitoring procedures, it did not have specific actions documented in its contract monitoring procedures or maintained evidence of its fiscal monitoring activities in a consistent and standardized manner for contractors or subrecipients that were assessed as medium or low risk.

Closeout Process – DHA did not document its contract closeout process as part of its contract monitoring policies and procedures.

Criteria

Contract monitoring policies and procedures should provide clear and accurate instructions for performance of risk assessments. In addition, the policies and procedures should be periodically reviewed and updated when any changes are made to the risk assessment process. Documented procedures for risk factors considered and scoring for the risk assessment process should be consistent with those utilized in the risk assessment matrix.

Per Title 2 Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (i.e. 2 CFR Part 200 or Uniform Guidance), Section 332 (b), all pass-through entities are required to *“Evaluate each subrecipient's risk of noncompliance with Federal*

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statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e)...

Per DHA's Fiscal Subcontractor Monitoring Policies, "Medium and low risk subrecipients will be subject to routine program and fiscal monitoring with frequency depending upon both initial assessment score and changing variables or previous monitoring findings occurring during the fiscal year..."

Per Uniform Guidance, Section 344, "The Federal awarding agency or pass-through entity will close out the Federal award when it determines that all applicable administrative actions and all required work of the Federal award have been completed by the non-Federal entity. If the non-Federal entity fails to complete the requirements, the Federal awarding agency or pass-through entity will proceed to close out the Federal award with the information available..."

Effect

Outdated contract monitoring policies and procedures could hinder DHA staff from performing risk assessments in an effective, consistent, and standardized manner.

Without having specific monitoring actions documented for those contractors or subrecipients assessed as medium or low risk, DHA staff may not be able to perform contract monitoring in a consistent and standardized manner, may omit necessary or perform unnecessary monitoring procedures for those contractors or subrecipients assessed as medium or low risk.

Not having documented policies and procedures for the closeout process may lead to omission of necessary steps required by contract agreements with Federal funds and/or Uniform Guidance in the closeout procedures performed by DHA staff, thereby resulting in non-compliance with those requirements.

Recommendation

We recommend DHA review and update its Contract Monitoring Policies and Procedures annually at a minimum to reflect current practice and to strengthen its internal controls over the contract monitoring process. Specifically, DHA should document monitoring actions required for those contractors or subrecipients assessed as medium or low risk to perform fiscal monitoring for them in a consistent and standardized manner. DHA should also document the contract closeout process to comply with applicable laws, regulations, or contractual requirements.

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DHA's Management Response

DHA Management has thoroughly reviewed the findings of the recent audit and agrees with the observations and recommendations provided. DHA Management recognizes the importance of maintaining strong fiscal oversight and ensuring that our contractor monitoring procedures are both efficient and effective.

DHA Management took initiative and made significant changes to our processes since the initial performance audit was conducted. Great efforts were made by the department to request a collaboration with the Department of Finance and other county departments to establish a consistent process. As a result, DHA Management has established and documented a monitoring process flow chart for subrecipients assessed at all three risk levels. The process includes performing site visit reviews for medium risk subrecipients, and monthly desk reviews for all subrecipients. DHA Management has conducted a comprehensive review of our current monitoring processes and are actively working to ensure all processes are standardized and streamlined to enhance fiscal monitoring across all contractors. DHA Management continuously supports training to grow our staff knowledge and understanding of Title 2 CFR 200 requirements. In early 2024, the Department of Finance provided contract monitoring training where DHA staff participation included fiscal, program planners and contract staff. These improvements aim to ensure that program and fiscal records are thoroughly documented, maintained, and easily accessible for future reference.

DHA Management is continuously reviewing and updating policies, procedures and processes to strengthen contract management and monitoring processes. Even though we perform the contract closeout procedures as stated in Title 2 CFR 200.344, we are in the process of documenting the process and defining a consistent closeout process for all contractors.

2. CONTRACTS REVIEW

a) Due Dates for Invoice Claims

Condition

Of the 30 samples reviewed out of 363 contracts, we noted that there were five (5) contracts that had inconsistent due dates for submission of invoice claim to DHA within the contract agreements. See Table 1 on the next page for a summary of the dates for these five (5) contracts.

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Table 1: Summary of Invoice Claim Inconsistent Due Dates

No.	Main Contract	Exhibit A	Exhibit C
1	10th	15th	15th
2	10th	15th	15th
3	10th	15th	15th
4	15th	None	10th
5	10th	15th	10th

Criteria

Executed contract agreements by the County should be clear, accurate and consistent throughout the agreements.

Effect

Conflicting information for invoice claims process on a contract agreement creates confusion on contractual requirements for the contractor/subrecipient; therefore, the County may not be able to enforce the intended contractual requirements to the contractor/subrecipient and effectively monitor contracted activities.

Recommendation

We recommend that DHA review the contract agreements and templates to ensure that due dates for invoice claim submission are consistent throughout the various sections of contract agreements prior to execution of future contracts.

DHA's Management Response

DHA Management has reviewed the audit findings and acknowledges the inconsistencies identified regarding the invoice claim due dates between Exhibit A and Exhibit C. DHA Management has made significant changes to our processes since the initial audit findings were performed. DHA Management has taken the necessary steps to implement these changes and has ensured that all contracts and exhibits have been updated accordingly.

DHA Management has updated all relevant exhibits and contracts to standardize the invoice claim due date to reflect a consistent date of each month for all contracts. These changes have been implemented in all our new contract agreements and will apply to all DHA contracts effective fiscal year 2025-26.

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b) Consistency Between Contract Terms and Practice

Condition

During contracts review, we noted one (1) contract agreement had conflicting terms for the required supporting documentation for invoicing process. Under Scope of Services, Section X. Invoicing for the Food Insecurity Program Item #4, contract noted that *"SUBRECIPIENT will be required to submit wage stubs for direct staff."* Under Budget Requirements, Section III. Claims/Reporting Part F, contract noted that all claims must include *"Financial supporting documentation that is compliant with 2 CFR 200 (Uniform Guidance) upon COUNTY request that shall include, but not be limited to: ...payroll registers, paystubs, timesheets, and time studies for staff directly charging salaries and benefits to ARPA, complaint with 2 CFR 200 (Uniform Guidance)."* Under Scope of Services, the subrecipient must provide wage stubs for direct staff, whereas under Budget Requirements, the subrecipient may need to provide paystubs upon COUNTY request.

Also, we noted inconsistency between contract requirement versus DHA's practice. Based on our inquiry to DHA staff, DHA only required the subrecipient for the above-mentioned contract agreement to include a schedule of expenses and general ledger with invoice claims for the above-mentioned contract. The subrecipient is expected to maintain required supporting documentations but was not required to submit wage stubs for direct staff as documented under Scope of Services.

Separately, during invoice claims review, we noted another instance of inconsistency between contract terms and practice for another contract agreement. The terms of the contract agreement noted that claims submitted by subrecipient must include its subcontractor invoices. However, supporting documentation provided was only a paystub showing payment from the subrecipient to its subcontractor. The required subcontractor invoices were not submitted.

Criteria

Executed contract agreements by the County should be clear, accurate and consistent throughout the agreements. The practice for invoicing process should follow requirements as documented in the contract agreement.

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Effect

Inconsistent contract terms and practice may create confusion on contractual requirements for the contractor/subrecipient; therefore, the County may not be able to enforce the intended contractual requirements to the contractor/subrecipient and effectively monitor contracted activities.

Recommendation

We recommend that DHA review the contract agreement to ensure that terms are consistent throughout the various sections of contract agreements prior to execution of future contracts. If additional supporting documentation is a requirement for certain medium or high risk contractors or subrecipients, that should be noted in contractual templates.

DHA should ensure that its practice for the invoicing process is consistent with requirements of the contract agreement.

DHA's Management Response

DHA Management acknowledges the audit findings regarding the inconsistencies in the invoicing requirements for the Scope of Services and the Budget.

DHA Management has addressed the inconsistencies by consolidating all invoicing and submission requirements into one centralized section within Exhibit C of the contracts. We have also updated the contract agreements to include a verbiage requiring additional documentation to substantiate the claim in line with Title 2 CFR 200. All invoices submitted for payment on a contract require supportive documentation for reimbursement. This ensures consistency across all contracts. DHA Management implemented and streamlined invoicing process to ensure compliance with the contract terms in fiscal year 2023-24. Additionally, with the hiring of three new paraprofessional positions in mid-2024, the department has added resources to the contract monitoring desk audits of the invoicing process for consistency with requirements of the contract agreements.

c) Required Information for Federal Award Identification

Condition

Based on review of 15 DHA sample contract agreements with Federal funds, we noted missing required information for Federal Award Identification. See Table 2

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for a summary of required information not included in DHA's contract agreement(s) and number of contracts with missing information.

Table 2: Summary of Contracts with Missing Federal Award Identification

Missing Required Federal Award Identification	No. of Contracts Missing Information
• Subrecipient's unique entity identifier	3
• Federal Award Identification Number	1
• Federal Award Date	3
• Federal award project description	1
• Indirect cost rate	3

Criteria

Per Uniform Guidance Section 332 (a)(1), DHA must include required information for federal award identification in its agreements with their subrecipients. The required information that was not included in DHA's contract agreements are listed in the above table.

Effect

DHA is not compliant with the federal award identification requirement of Uniform Guidance for some subrecipient agreements. Not providing adequate federal award information upfront may impact the subrecipient's performance of contracted services as intended by the federal awards and may also impact the County and Subrecipient's compliance with federal regulations.

Recommendation

DHA should include all required information for federal award identification on its contract agreements to comply with Uniform Guidance. DHA should update contractual templates accordingly to include standard language provided when needed.

DHA's Management Response

DHA Management recognizes and acknowledges the need for the necessary elements as specified in Section 332 (a)(1) of the Uniform Guidance were not consistently included in certain contracts during the audit review.

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DHA Management implemented a verification step in the contracting process in 2023 to ensure contractors have an active Unique Entity Identifier (UEI) and the information documented in the contractor's online folder.

DHA Management has addressed this issue and is in full compliance with the Federal Award Requirements moving forward. To rectify the inconsistencies, we have taken the following actions:

1. **Review and Update Contracts:** We are systematically reviewing all existing contracts to ensure the requirements of Uniform Guidance Section 332 (a)(1) is included or revised and amended accordingly.
2. **Integrate Federal Award Requirements into New Contracts:** DHA Management is ensuring that all new contracts include the appropriate information and provisions in accordance with Section 332 (a)(1) of the Uniform Guidance. This has been incorporated as part of our standard contract review process.

d) Advanced Contract's Claims and Required Supporting Documentation

Condition

DHA had one (1) subrecipient annual agreement that issued a total of \$69,335,317 full advanced payments to a subrecipient for the Emergency Rental Assistance Programs (ERAP). Fully advanced payments on this contract were based on a special condition for ERAP. Most of DHA's contracts are not normally fully advanced. The agreement required the subrecipient to submit monthly claim forms reflecting actual expenditures and to keep appropriate books, records, and accounts in connection with program funds and activities for four (4) years after DHA issued the advanced payments.

Per the agreement, the subrecipient only submitted monthly claim forms to DHA but did not provide any supporting documentation. However, we noted that the monthly claim forms only list two (2) budget line items (delivery costs and assistance payments) for the subrecipient to report. The subrecipient was not required to itemize any breakdown of the two (2) budget line items nor provide a detailed explanation of the expenditures. Therefore, it is difficult to verify whether appropriate expenditures were spent.

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In addition, the agreement did not define nor explain what they consider as appropriate books, records, and accounts for the Subrecipient to maintain.

Criteria

Large dollar advanced payments should be required more oversight and monitoring to ensure funds are spent appropriately according to the agreement. Only requiring monthly claim report without any itemized/detail expenditure report, explanation, or supporting document seems not adequate for oversight and monitoring.

The agreement should define or explain what is considered as appropriate books, records, and account documentation to avoid any confusion or disagreement.

Effect

Without any itemized/detail expenditure report, explanation, or supporting document, DHA may not effectively oversee and monitor the advanced payments were spent appropriately.

Without definition or explanation of what is considered as appropriate books, records, and accounts, the subrecipient may not maintain proper records to support the expenditures.

Recommendation

We recommend that DHA include, in its contract agreements, a requirement to provide itemized/detail expenditure report, explanation, or supporting document to support actual expenditures claimed for contract that offer advanced payments. Supporting documents should be provided at least monthly. In addition to reviewing monthly claimed amounts as reported on claims, DHA should review claimed amounts and related records supporting actual expenditures at the end of the contract period at a minimum to ensure that subrecipient claims were accurately reported to offset those advanced payments.

We also recommend DHA include the definition or explanation of what consider as appropriate books, records, and accounts in the agreement.

DHA's Management Response

DHA Management recognizes the need for additional oversight requirements and has made significant changes to our processes since the initial performance

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audit was conducted. DHA Management request for three new fiscal paraprofessional positions was approved to support the fiscal contract monitoring and tracking, including the fiscal documentation for each contract. In mid-2024 staff were hired. With the approved resources, the department has revised the Exhibit C of all contracts to include language requiring the submission of supporting documentation with each invoice claim. The department also requires contractors requesting advance payment to present a re-payment plan to DHA Management for approval. In addition, the department has a process in place for monitoring repayment of advances on an on-going basis to ensure compliance.

3. **CONTRACTS ADMINISTRATION**

Condition

We requested audited financial statements submitted to DHA by its contractors/subrecipients and audit report receipt tracking record maintained by DHA for a sample of 11 contracts (7 included Federal Funds).

Based on our inquiries with DHA staff and review of DHA's review process of submitted financial audit reports for the sample of 11 contracts, we noted that DHA did not track receipt and review of audited financial statements. We also noted the following:

- Timely submission of audited financial statements for one (1) contract.
- No submissions of audited financial statements for six (6) contracts.
- Late submissions of audited financial statements for four (4) contracts (Range for days late: 26 - 230 days) without an approved extension of submission timeline by DHA management.

DHA indicated that they did not maintain an audit report receipt tracking record. We did not note that DHA followed up with other appropriate actions.

Criteria

Per DHA's Agreement, *"The annual audit shall be submitted electronically to the Contract Manager within six months of the end of the Agreement period. Should there be any delay; CONTRACTOR shall immediately inform the Contracts Manager of the delay."*

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Uniform Guidance Section 332 (f) requires DHA *“Verify that every subrecipient is audited as required by Subpart F of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501.”*

Effect

DHA is not compliant with Uniform Guidance's Audit Requirements for those seven (7) contracts with Federal Funds and for the remaining three (3) contracts DHA is not compliant with Audit Requirements contained in the Agreements if DHA cannot compel the contractors/subrecipients to perform required audits and submit reports in a timely manner. Without reviewing the submitted audited financial statements or other alternate forms in a timely manner, DHA may not be able to make an accurate assessment of the financial condition for their contractor/subrecipient or identify any audit findings and non-compliance issues to take appropriate actions in a timely manner. Also, without tracking submissions of reports and completion of reviews of reports, DHA may not be able to follow-up on delinquencies for submissions and reviews.

Recommendation

We recommend DHA track submission of audited financial statements, and any alternate reports required from their contractor/subrecipient and follow-up with any non-compliant contractor/subrecipient in a timely manner to comply with Uniform Guidance' Audit Requirements.

We also recommend that DHA document their review of audit reports for tracking purposes as well as evidence of the performance of contract monitoring activities (see second criteria at Finding #5).

DHA's Management Response

DHA Management has implemented the tracking of audited financial statements and any alternate reports required from our contractors/subrecipients as appropriate prior to the contracts execution. Due to challenges with staff resources this was not consistently applied in the past. With the approved and hired position in mid-2024, DHA Management is monitoring and requiring the contractors to submit the most recent audited financial statements before execution of contracts. This is in full effect as the department prepares for the fiscal year 2025-26 contract renewal.

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4. INVOICE CLAIMS

Condition

We examined a sample of 16 contractor/subrecipient invoice claims submitted to DHA for compliance with terms of the contract agreements and adequate support and approval. Based on our review of DHA's invoice claims, form named "Electronic Claim Form" and the required supporting documentation, we noted two (2) areas of concern with nine (9) of the 16 invoice claims. See specifics under areas of concern listed below and a summary at Table 3 on the next page.

Inadequate Supporting Documentation

We noted five (5) tested invoices did not have adequate supporting documentation. The following observations were made during review for these five (5):

- Two (2) did not have reports available to substantiate claims.
- Three (3) had records issues (e.g. incomplete personnel expenditures, insufficient general ledger, and modified or incomplete records).

Electronic Claim Form (ECF)

We noted issues related to completeness and accuracy for five (5) ECFs. The following observations were made during review for these five (5):

- DHA's approval as evidence that sample month had been reviewed/approved for payment was missing on form for one (1) ECF
- Incorrect formula in the form for one (1) ECF.
- Incomplete information on participants served for one (1) ECF
- Participants served were not documented for one (1) ECF.
- Approved budget amount could not be verified as the approved budget revision request was not available for review for one (1) ECF.

Observations under inadequate supporting documentation resulted in unverified amounts and observations under ECF only impacted completeness and accuracy of the ECF and had no financial impact.

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Table 3 Summary of Areas of Concern and Unverified Amounts

Sample No.	Sample Month/Year	Areas of Concern		Unverified Amounts
		Inadequate Supporting Documents	ECF Information	
1	June 2021	√		\$ 65,655
2	June 2022	√		267,675
3	January 2023	√		30,403
4	July 2022	√		10,106
5	January 2023	√	√	4,848
6	June 2021		√	
7	June 2022		√	
8	June 2022		√	
9	December 2022		√	
Total		5	5	\$ 378,687

Of 16 invoice claims, there were two (2) invoice claims that supporting documents were not reviewed. DHA accepted an alternative supporting document for one (1) invoice claim and as such we could not review the required supporting document of subcontractor invoices. DHA did not require supporting documentation to be included with ECF for one (1) invoice claim and as such we could not review any supporting documentation for this invoice claim. See Findings #2b and #2d respectively.

Criteria

DHA's Contract Monitoring Policies and Procedures noted under Fiscal Review that *"monitoring in this area includes the review of the contractor's invoices to ensure they are being submitted timely and with all the necessary information."*

Effect

Without adequately reviewing documents provided to substantiate amounts on invoice claim form, DHA may make payments for ineligible claim to contractors/subrecipients.

Issues noted under ECF information resulted in non-compliance with DHA's invoice claim review process and terms of a contract agreement. Additionally, missing or incorrect information on ECF resulted in inaccurate invoice claims record keeping.

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Recommendation

DHA should ensure that contractor/subrecipients' ECFs included all required information before processing claim payments. DHA should notify contractor/subrecipient so that the staff preparing ECF for submission can correct or include required information for accuracy and completeness.

DHA should review supporting documents provided by contractor/subrecipient to substantiate amounts reported on ECF to DHA for accurate payments.

DHA should review and reconcile any payment differences between invoice claims and supporting documentation for sample invoice claims. The corresponding contract agreement numbers to those audited samples at Table 3 have been provided separately to DHA. For overpayments, DHA should follow up with subrecipient/contractor for repayment.

DHA should review unverified amounts to determine if follow-up with the contractor/subrecipient will be required or appropriate at this time for sample invoice claims. DHA should resolve the issues noted in this finding.

DHA's Management Response

DHA Management made significant changes to the invoice review process in 2023, including transitioning from an Electronic Claims Form (ECF) to an invoicing process. Other updates also include requirements for supporting documentation such as complete payroll register and itemized general ledger that reconciles to the invoice.

To strengthen the review process and communication with our contractors, the department hired more Program Planners who provide ongoing support to the contractor/subrecipient including coordination efforts for program and fiscal technical support as needed. The Department requires the Program Planner to review the scope of work before approving the invoice for payment and communicate with the contractor/subrecipient with any concerns.

In addition, DHA Management took initiative and created a secure shared drive for contractors to upload their invoices and supporting documentation, allowing for an easier approach to have the contractors provide large documents on a secure network.

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DHA is committed to the continued review of our processes and procedures to improve upon issues identified and ensuring compliance with invoice verification, documentation, and approval.

5. **CONTRACT MONITORING**

Condition

We selected a sample of 15 contracts to test whether DHA has performed adequate contract monitoring.

Based on inquiries to DHA staff, although DHA program staff perform some monitoring procedures, monitoring of program activities and performance goals were not documented in a consistent and systemic manner.

DHA typically requests the Department of Finance, Internal Audit Unit (IAU) to perform monitoring for subrecipient/contractor who are assessed as high risk. IAU is only required to perform monitoring that focuses on fiscal activity, but not program activity reporting and achievement of performance goals.

During our review, it appears that the DHA Fiscal Unit performed some fiscal monitoring procedures such as review of general ledger or invoice claims for those subrecipient/contractor who were not assessed as high risk and review of audited financial statements to score select factors included on risk assessment; however, the monitoring activities were not documented in a consistent and systemic manner.

Criteria

Uniform Guidance, Section 332 (d) required that DHA *“Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”*

Uniform Guidance, Section 200.332 (d) (1) noted that *“Pass-through entity monitoring of the subrecipient must include: (1) Reviewing financial and performance reports required by the pass-through entity.”*

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Effect

Without properly documenting its contract monitoring procedures performed, DHA may not demonstrate it complied with the Uniform Guidance contract monitoring requirements.

Recommendation

We recommend DHA properly document its contract monitoring activities to comply with the Uniform Guidance. Also, see Finding #1.

DHA's Management Response

DHA Management has made significant changes to our Contract Monitoring processes since the initial audit was carried out. DHA Management acknowledges that the department did not consistently document monitoring activities at the time of the audit and has since re-evaluated the workload requirements for a heavily federal and state funded department recognizing the need for additional staffing resources. DHA Management request for three new fiscal paraprofessional positions were approved to support the fiscal contract monitoring and tracking including the fiscal documentation for each contract. In mid-2024 staff were hired. DHA Management is consistently working to improve contract management and monitoring processes and policies. DHA Management continues to work with staff to make sure that all processes are aligned with the Uniform Guidance contract monitoring requirements, to ensure compliance and strengthen the effectiveness of the program.