

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
February 6, 2018
“*Communications Received and Filed*” Item

To: Board of Supervisors

From: Department of Finance

Subject: Department Of Health And Human Services First 5 Sacramento Commission
Contracts Review For The Period July 1, 2016 To June 30, 2017

Supervisory
District(s): All

Contact: Joyce Renison, Assistant Auditor-Controller, 874-6454

DISCUSSION

The First 5 Sacramento Commission has contractual agreements (Agreements) with the County of Sacramento (County) Department of Health and Human Services (DHHS) to provide dental, medical, and breastfeeding supportive services to children ages 5 and under (Program) residing in the County. The Agreements require either an audit or agreed-upon procedures (AUP) of the Program each fiscal year. Accordingly, DHHS requested the County Department of Finance to perform an AUP engagement for the Program.

The procedures and results are documented in the attached AUP report.

Respectively submitted,

Ben Lamera
Director of Finance

Attachment

ATT 1 - Department of Health and Human Services First 5 Sacramento Commission Contracts
Review for the Period July 1, 2016 to June 30, 2017



County of Sacramento

December 13, 2017

Sherri Z. Heller, Ed.D., Director
Department of Health and Human Services
7001-A East Parkway, Suite 1100
Sacramento, CA 95823

**ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Dear Dr. Heller:

We have performed the procedures enumerated below, which were agreed to by you regarding the Department of Health and Human Services' (DHHS) programs' (Programs) contractual agreements (Agreements) with the First 5 Sacramento Commission (Commission) as listed below for the period from July 1, 2016, through June 30, 2017:

- HEARTS for Kids program, Contract Number 7205000-16/18-340R
- Smile Keepers Dental Health program, Contract Number 7207500-16/18-255R
- Women, Infants, and Children (WIC) program – Community Lactation Assistance (CLA) project, Contract Number 7201500-16/18-085R

DHHS' management is responsible for ensuring the Programs' compliance with the Agreements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures performed is solely the responsibility of DHHS' management. Consequently, we make no representation regarding the sufficiency of the procedures described below and on pages 2 and 3 either for the purpose for which this agreed-upon procedures report has been requested or for any other purpose. This report is applicable solely to the Programs and Agreements referred above and is not intended to pertain to any of DHHS' other operations, procedures, or compliance with laws and regulations.

The procedures we performed and associated findings are as follows:

- 1) Operations – We inquired with the Programs' staff and management and inspected the Programs' organizational charts to identify any conflicts of interest and non-compliance with the Agreements.

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

- 2) Internal Control – We obtained the Programs’ 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 4, 5, 6, and 7.

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

- 3) Cost Allocation – We obtained the Programs’ written cost allocation policy, procedures, and methodology including the cost allocation worksheets and supporting data. We compared the policy, procedures, and methodology to the results of our Procedure Numbers 5, 6, and 7.

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

- 4) Claim Submission – We inspected and recalculated all claim submissions to the Commission. We traced the claims to DHHS’ general ledgers and budgets approved by the Commission. We also confirmed DHHS’ record of claim receipts to the Commission’s payment records.

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

- 5) Payroll Expenditures – We obtained payroll expenditure ledger details for the Programs. We selected 15 salary expenditure transactions from each of the Programs. We recalculated them based on payroll registers, timesheets, activity reports, and cost allocation methodology. We traced these transactions to the claim submission and recalculated the related benefit claims to identify any non-compliance with the Agreements from these expenditures.

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

- 6) Non-Payroll Expenditures – We obtained expenditure ledger details for the Programs. We selected 25 non-payroll expenditure transactions from each of the Programs and traced them to the supporting documentation such as vendor invoices, receipts, journal entries, and cost allocation calculation to identify any non-compliance with the Agreements from these expenditures.

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

- 7) Subcontractor Monitoring – We obtained the Programs’ written subcontractor monitoring policy and procedures. We selected a subcontractor from each of the Programs. We selected 12 transactions from each subcontractor to identify any non-compliance with written subcontractor monitoring policy and procedures and the Agreements from these transactions.

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

- 8) Status and Progress Reports – We obtained status and progress reports submitted to the Commission from each of the Programs to identify any Programs’ status and progress reports submitted to the Commission after the required due dates.

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

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 objective of which would be the expression of an opinion or conclusion, respectively, on DHHS’ 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, County Executive, DHHS’ 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, C.P.A.
Audit Manager

Attachments

Attachment I: *Current Status of Prior Findings and Recommendations*
Schedule I: *Schedule of Approved Budget and Expenditures Claimed*

cc: Members, Board of Supervisors
Nancy Newton, Assistant County Executive
David Villanueva, Deputy County Executive, Administrative Services
Paul Lake, Deputy County Executive, Social Services
Britt Ferguson, Chief Fiscal Officer, Office of Budget and Debt Management
Julie Gallelo, Executive Director, Commission
Maryann Luke, Chief of Fiscal, DHHS

County of Sacramento
Department of Health and Human Services
First 5 Sacramento Commission Contracts
Agreed-Upon Procedures
Current Status of Prior Findings and Recommendations
For the Period from July 1, 2016, through June 30, 2017

**FROM THE PRIOR AGREED-UPON PROCEDURES REPORT FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016, DATED DECEMBER 20, 2016**

1) Liability and Workers' Compensation Insurance Expenditures

Prior Comment

During our review of the Department of Health and Human Services' (DHHS) expenditures claimed for the Smile Keepers Dental Health Program (Smile Keepers) and the Women, Infants, and Children (WIC) – Community Lactation Assistance (CLA) Project (WIC – CLA), we noted disallowed liability and workers' compensation insurance expenditures claimed to the First 5 Sacramento Commission (Commission) in the total amount of \$15,006. The disallowed costs claimed for Smile Keepers and WIC – CLA programs are \$11,391 and \$3,615, respectively. The disallowed costs for Smile Keepers are comprised of \$6,626 in liability insurance costs and \$4,765 in workers' compensation insurance costs. The disallowed costs claimed for WIC – CLA are comprised of \$2,103 in liability insurance costs and \$1,512 in workers' compensation insurance costs.

Per section #25 (Insurance) of Smile Keepers' and WIC – CLA's contractual agreements, "*Each party, at its sole cost and expense, shall carry insurance or self-insure its activities in connection with this Agreement, and obtain, keep in force and maintain, insurance or equivalent programs of self-insurance, for general liability, professional liability, workers' compensation, and business automobile liability adequate to cover its potential liabilities hereunder. Each party agrees to provide the other thirty (30) days advance written notice of any cancellation, termination or lapse of any of the insurance or self-insurance coverages.*" DHHS was unaware that liability and workers' compensation insurance costs were not claimable.

Prior Recommendation

We recommend DHHS not claim liability and workers' compensation insurance expenditures per the contract agreements. We further recommend DHHS refund the disallowed expenditures to the Commission in the amount of \$15,006.

DHHS' Prior Management Response

DHHS does not concur with this audit finding. DHHS discussed with First 5 Sacramento Commission the discrepancy of a provision not allowing the liability and workers' compensation insurance in the executed contract but were allowed as a line item expense included in the approved budget. DHHS requested from First 5 Sacramento Commission to allow the payment of these expenditures as approved in the budget. First 5 Sacramento Commission agreed and will waive the need to repay the liability and workers' compensation insurance expenditures for fiscal years 2015-2016 and 2016-2017 as these expenditures were allowed in accordance with the Office of Management and Budget (OMB) regulations.

County of Sacramento
Department of Health and Human Services
First 5 Sacramento Commission Contracts
Agreed-Upon Procedures
Current Status of Prior Findings and Recommendations
For the Period from July 1, 2016, through June 30, 2017

**FROM THE PRIOR AGREED-UPON PROCEDURES REPORT FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016, DATED DECEMBER 20, 2016 (CONTINUED)**

DHHS agrees that for fiscal year 2017-2018, First 5 Sacramento Commission will request budget revisions to abide by the provision of the contract with regards to disallowing the insurance liability and workers' compensation expenditures.

Current Status

It appears that our recommendation has been partially implemented. DHHS did not claim any liability or worker's compensation insurance during the fiscal year 2017-18. However, DHHS did not refund the disallowed expenditures from the fiscal year 2016-17 report. Per inquiry with the Commission, DHHS was not required to return the disallowed expenditures.

2) Salary and Benefit Allocation Percentage (WIC - CLA)

Prior Comment

During our review of DHHS' payroll expenditures for the WIC – CLA, we noted a discrepancy between the salary and benefit allocation percentage applied to WIC – CLA's 4th quarter claim and the allocation percentage per DHHS' time study for one of its employees. DHHS used an allocation percentage of 94.4443% per its allocation calculation instead of the 96.4443% per its time study (2% salary and benefit under-claim). Allocation percentages used to submit salary and benefit expenditures to the Commission should be accurate and agree to the allocation percentages calculated from employee time studies. The cause of the error appears to be attributed to a formula used to calculate allocated salary and benefit costs. Although no questioned or disallowed costs were attributed to the error, future errors could lead to reporting errors and over-claimed expenditures.

Prior Recommendation

We recommend DHHS review its internal controls to ensure the allocation percentages claimed to the Commission for salaries and benefits expenditures are accurate and agrees to the allocation percentages calculated from its time studies. Any differences between allocation percentage calculations and the time studies should be researched and resolved in a timely manner.

DHHS' Prior Management Response

DHHS concurs with this audit finding. The finding was due to a typographical error. Fiscal staff will continue with efforts to thoroughly review time study allocations to ensure accuracy of the salary and benefit allocation percentages used for invoice claiming.

Current Status

It appears that our recommendation has been implemented.

County of Sacramento
 Department of Health and Human Services
 First 5 Sacramento Commission Contracts
 Agreed-Upon Procedures
 Schedule of Approved Budget and Expenditures Claimed
 HEARTS for Kids Program
 For the Period from July 1, 2016 through June 30, 2017

<u>Program Costs</u>	<u>Approved Budget</u>	<u>Expenditures Claimed</u>
Personnel Costs	\$ 254,043	224,346
Other Operating Costs	10,200	4,841 ⁽¹⁾
Subcontractor Costs	95,176	92,102
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Total Costs	<u><u>\$ 359,419</u></u>	<u><u>321,289</u></u>

⁽¹⁾ Amount includes \$3,692 in accrued audit costs.

See Accountant's Report on Applying Agreed-Upon Procedures

County of Sacramento
 Department of Health and Human Services
 First 5 Sacramento Commission Contracts
 Agreed-Upon Procedures
 Schedule of Approved Budget and Expenditures Claimed
 Smile Keepers Dental Health Program
 For the Period from July 1, 2016 through June 30, 2017

<u>Program Costs</u>	<u>Approved Budget</u>	<u>Expenditures Claimed</u>
Personnel Costs	\$ 392,430	340,635
Program Operating Costs	123,444	102,439
Administrative Costs ⁽¹⁾	133,217	119,284 ⁽²⁾
Indirect Costs	64,909	37,430
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Total Costs	<u><u>\$ 714,000</u></u>	<u><u>599,788</u></u>

⁽¹⁾ Non-indirect costs.

⁽²⁾ Amount includes \$7,333 in accrued audit costs.

See Accountant's Report on Applying Agreed-Upon Procedures

County of Sacramento
 Department of Health and Human Services
 First 5 Sacramento Commission Contracts
 Agreed-Upon Procedures
 Schedule of Approved Budget and Expenditures Claimed
 Women, Infants, and Children (WIC) Program
 For the Period from July 1, 2016 through June 30, 2017

<u>Program Costs</u>	<u>Approved Budget</u>	<u>Expenditures Claimed</u>
Personnel Costs	\$ 222,028	172,237
Operating Costs ⁽¹⁾	653,290	590,134
Administrative Costs ⁽²⁾	22,000	9,399 ⁽³⁾
Indirect Costs	17,843	13,885
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Total Costs	<u><u>\$ 915,161</u></u>	<u><u>785,655</u></u>

⁽¹⁾ Included \$629,890 and \$580,747 in budgeted and expended subcontractor costs, respectively.

⁽²⁾ Non-indirect costs.

⁽³⁾ Amount includes \$9,399 in accrued audit costs.

See Accountant's Report on Applying Agreed-Upon Procedures