

# COUNTY OF SACRAMENTO

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

**INTERNAL AUDIT REPORT**  
**PUBLIC HEALTH INSTITUTE**  
**FISCAL MONITORING**  
**AGREED-UPON PROCEDURES**  
**DEPARTMENT OF HEALTH SERVICES**



**Audit Committee Submittal Date: 10/19/2023**

## **SUMMARY**

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### **Background**

This fiscal monitoring Agreed-Upon Procedures is requested by Department of Health Services (DHS) as Public Health Institute (PHI) is assessed as one of the high risk subrecipients based on DHS's subrecipient risk assessment.

PHI provides programs to improve the health, equity and wellness by discovering new research, strengthening key partnerships and programs, and advancing sound public health policies. PHI has agreements (Agreements) with DHS to provide substance abuse prevention and treatment services to the community and to carry out a comprehensive, multi-level supplemental nutrition assistance program education interventions to improve nutrition and physical activity and promote obesity prevention in the Sacramento Region.

Internal Audit Unit performed the Agreed-Upon procedures engagement for the following programs:

- SAPT– Substance Abuse Prevention and Treatment:
  - Negotiated Rate Agreement No. 7206000-20-085 for the period July 1, 2019 to June 30, 2020
  - Negotiated Rate Agreement No. 7206000-21-085 for the period July 1, 2020 to June 30, 2021
- SNAPED – Supplemental Nutrition Assistance Program Education:
  - Cost Reimbursement Agreement No. 7207500-17.20-269 for the period July 1, 2019 to June 30, 2021

### **Audit Objective**

To assist DHS in assessing PHI's financial condition and compliance with the Agreements between DHS and PHI for the period of July 1, 2019 to June 30, 2021.

### **Summary**

Based on our agreed-upon procedures performed, we noted concerns related to PHI's internal controls over invoice claiming, claim submission, and general ledger.

Department of Finance  
Chad Rinde  
Director



County of Sacramento

**Divisions**  
Auditor-Controller  
Consolidated Utilities Billing &  
Service  
Investments  
Revenue Recovery  
Tax Collection & Licensing  
Treasury

August 14, 2023

Timothy Lutz, Director  
Department of Health Services  
County of Sacramento  
7001-A East Parkway, Suite 1000  
Sacramento, CA 95823

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

Dear Mr. Lutz:

We have performed the procedures enumerated below, which were requested and were agreed to by you, regarding Public Health Institute's (PHI) fiscal compliance as outlined in the contractual agreements (Agreements) listed below:

- SUPT– Substance Use Prevention and Treatment:
  - Negotiated Rate Agreement No. 7206000-20-085 for the period July 1, 2019 to June 30, 2020
  - Negotiated Rate Agreement No. 7206000-21-085 for the period July 1, 2020 to June 30, 2021
  
- SNAPED – Supplemental Nutrition Assistance Program Education:
  - Cost Reimbursement Agreement No. 7207500-17.20-269 for the period July 1, 2019 to June 30, 2021

This agreed-upon procedures engagement was conducted to assist the Department of Health Services (DHS) to a) assess PHI's financial condition and compliance with the above Agreements and with Section 200.332 (d) of the Title 2 Code of Federal Regulations (2 CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and b) verify monthly invoice claims submitted by PHI are accurate and reasonable.

DHS's management is responsible for monitoring PHI's compliance of the Agreements in accordance with 2 CFR Section 200.331 (d) "*Monitor the activities of the subrecipient [PHI] as necessary to ensure that the subaward [Agreements] is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward [Agreements]...*" The sufficiency of the procedures is solely the responsibility of DHS's management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purposes. This report is applicable solely to the Agreements referred above and is not intended to pertain to any other agreements of DHS or PHI.

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

- 1) Internal Control – We reviewed PHI's written internal control policies and procedures including purchasing, vendor payments, payroll, claim submissions, cost allocations, general ledger, and financial report preparation. We also reviewed PHI's written procedures for clients' admission and release, program eligibility verification, and services provided for its programs listed in the Agreements.

Result: We noted some concerns related to PHI's invoice claiming and financial recording procedures. See ATT 2 - *Findings and Recommendations*.

- 2) Financial Statements – We reviewed PHI's financial audit reports for years ended December 31, 2019 and December 31, 2020 to identify any concerns or issues that require your attention.

Result: We did not note any exceptions from our review of PHI's audit reports.

- 3) Claim Submission – We obtained and reviewed PHI's monthly invoice claims for December 2019, April 2020, June 2020, December 2020, April 2021, and June 2021. We haphazardly selected and tested 30 transactions per program from these monthly claims.

Result: We did not note any exceptions from our sample testing of PHI's invoice claim expenses; however, we noted inaccurate reporting and unsubstantiated expenses claimed during our procedures performed for Item #4 below. See ATT 1 - *Schedule of Amounts Budgeted, Recorded, Claimed, and Disallowed* and ATT 2 - *Findings and Recommendations*.

- 4) General Ledger – We traced PHI's monthly invoice claims for December 2019, April 2020, June 2020, December 2020, April 2021, and June 2021 to its general ledger. In addition, we compared the total amounts claimed for each contract by each contract year to the general ledger.

The engagement period for SNAPED (Agreement No. 7207500-17.20-269) was from July 1, 2019 to June 30, 2021; however, SNAPED contract period runs in federal fiscal year (from October to September). Therefore, in order to complete our procedures, we compared the claims to the general ledger in a complete annual contract year basis.

Result: We noted some concerns related to related to the reconciliation between invoice claims and general ledger and improper financial recording/journal entries. See ATT 1 - *Schedule of Amounts Budgeted, Claimed, and Disallowed* and ATT 2 - *Findings and Recommendations*.

- 5) Cost Allocations – We reviewed PHI’s cost allocation policies and procedures to identify any concerns or issues that may require your attention. We tested the transactions listed at Item #3 above to identify any issues related to cost allocations.

Result: We did not note any exceptions from our review of PHI’s cost allocation policies and procedures.

- 6) Funding Sources – We made inquiries to the management of PHI to identify any funding sources other than DHS for its programs. We also reviewed PHI’s general ledger and invoice claims for December 2019, April 2020, June 2020, December 2020, April 2021, and June 2021 to identify any inappropriate or duplicated charges.

Result: We did not note any exceptions from our review of PHI’s funding sources.

This agreed-upon procedures engagement was conducted in accordance with the standards for attestation engagements contained in *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. We were not engaged to, and did not perform, an audit or examination or review, the objectives of which would be the expression of an opinion or conclusion, on PHI’s financial statements or schedules, internal controls, compliance with the Agreements, or the results of the agreed-upon procedures. 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.

DHS management responses to the findings identified during our engagement are described in ATT 2 - *Findings and Recommendations*. We did not perform procedures to validate DHS management responses to the findings and, accordingly, we do not express an opinion on the responses to the findings.

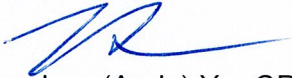
This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, and DHS management. It is not intended to be, and should not be, used by

Timothy Lutz, Director  
August 14, 2023  
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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: Hong Lun (Andy) Yu, CPA  
Chief of Audits

Enclosures

*ATT 1 - Schedule of Amounts Budgeted, Recorded, Claimed, and Disallowed*  
*ATT 2 - Findings and Recommendations*

County of Sacramento  
 Department of Health Services  
 Public Health Institute  
 Fiscal Monitoring Agreed-Upon Procedures  
 Schedule of Amounts Budgeted, Recorded, Claimed, and Disallowed  
 For the Periods from July 1, 2019 to June 30, 2021

<u>Contract/Budget Period</u>	<u>Current Budget</u>	<u>Amount Recorded<sup>1</sup></u>	<u>Amount Claimed and Paid<sup>2</sup></u>	<u>Disallowed Costs<sup>4</sup></u>
<b>7207500-17.20-269<sup>3</sup></b>				
From October 1, 2018 to September 30, 2019	\$ 195,000.00	171,600.69	171,600.69	\$
From October 1, 2019 to September 30, 2020	190,500.00	158,244.23	158,244.23	
From October 1, 2020 to September 30, 2021	178,770.00	131,084.93	138,160.21	7,075.28
<b>Subtotal:</b>	<b>\$ 564,270.00</b>	<b>\$ 460,929.85</b>	<b>468,005.13</b>	<b>\$ 7,075.28</b>
<b>7206000-20-085</b>				
From July 1, 2019 to June 30, 2020	<b>\$ 296,673.00</b>	<b>\$ 288,180.11</b>	<b>296,672.50</b>	<b>\$ 8,492.39</b>
<b>7206000-21-085</b>				
From July 1, 2020 to June 30, 2021	<b>\$ 296,673.00</b>	<b>\$ 296,653.11</b>	<b>296,672.00</b>	<b>\$ 18.89</b>
			<b>Total:</b>	<b>\$ 15,586.56</b>

<sup>1</sup> Represents amount recorded in PHI's general ledger.

<sup>2</sup> Represents amount claimed by PHI and paid by DHS.

<sup>3</sup> The engagement period for SNAPED (Agreement No. 7207500-17.20-269) was from July 1, 2019 to June 30, 2021; however, SNAPED contract period runs in federal fiscal year (from October to September). Therefore, in order to complete our procedures, we compared the claims to PHI's general ledger in a complete annual contract year basis.

<sup>4</sup> Represents expense claimed but not substantiated by PHI's financial record or other supporting documentation. See Finding #2 of ATT 2 - *Findings and Recommendations*.

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## 1. Internal Controls

### Condition

During our procedures, we noted the cumulative expense claim amount shown on Public Health Institute's (PHI) invoice claims for Supplemental Nutrition Assistance Program Education (SNAPED) were inaccurately calculated for 2019, 2020, and 2021. However, we did not note any questioned or disallowed costs as a result of these errors as the total claimed amounts matched the total payments made by the Department of Health Services (DHS).

In addition, during our review of invoice claims and general ledger, we noted some issues related to the reconciliation between invoice claims and general ledger and improper financial recording/journal entries as described in Finding #2.

### Criteria

All information in invoice claim should be accurate.

Per the Agreement of Substance Use Prevention and Treatment (SUPT) Program, Exhibit C, *"CONTRACTOR (PHI) agrees that, at a minimum, its fiscal control and accounting procedures will be sufficient to permit tracing of all funds received under this Agreement to a level of expenditure adequate to establish that such funds have not been used in violation of any applicable state or federal law, or the provisions of this Agreement."*

### Effect

Inaccurately reported cumulative amount of the expense claim may hinder proper budget verses invoice claim monitoring and lead to inadvertent over/(under) claim amounts which would not be detected in a timely manner.

In addition, PHI's insufficient fiscal controls and accounting procedures resulted in disallowed costs as noted in Finding #2.

### Recommendation

PHI should thoroughly review invoice claims, including cumulative claimed amounts and supporting documentation including but not limited to the reconciliation between claimed expenses and its general ledger and journal entries, prior to submitting the claims to DHS.



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In addition, PHI should review and update its internal control policies and procedures related to preparation and review of invoice claims periodically. Utilizing a checklist is a good tool to accurately prepare and review claims.

DHS should reject any claims submitted with errors until the errors are corrected.

**DHS Management Response**

Public Health Institute (PHI) will develop a checklist tool for invoice preparation, review, and approval policies and procedures by September 30, 2023. DHS will follow-up with PHI for the finalized checklist and policies and procedures.

**2. Claim Submission and General Ledger**

**Condition**

PHI claimed and were paid by DHS based on a negotiated rate for Substance Use Prevention and Treatment (SUPT). However, the expense claims were subject to cost settlement per the contract Agreement with DHS (Agreement). In addition, PHI was reimbursed for SNAPED at cost.

We compared expense amounts per PHI's general ledger to the amounts claimed to DHS and noted that PHI claimed more than the amounts recorded in its general ledger, totaling \$15,586.56. PHI was not able to explain the differences nor provide any supporting documentation.

In addition, during our review of general ledger, year-end payroll expense adjustments for one employee were not properly made to PHI's general ledger and improper journal entries were made posting Fiscal Year 2020/21 (FY) payroll expenses for two employees to FY 2019/20.

**Criteria**

Per the Agreements, Section XX – D, *“Contractor (PHI) 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.”*

Per the Agreement of SUPT Program, Exhibit D, Section XIV-F and the Agreement of SNAPED Program, Exhibit C, Section V-G, *“If a post-Agreement audit, conducted in accordance with standard accounting procedures, finds that the actual aggregate cost*

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*for all services furnished pursuant to this Agreement are lower than the payments made by County, or if any payments made by County are not reimbursable ....., the difference shall be repaid by Contractor (PHI) forthwith by cash payment or at the sole discretion of Director as a credit on future billings.....”*

**Effect**

PHI was not able to substantiate the \$15,586.56 difference between the amounts claimed and its financial records. Therefore, we consider the difference of \$15,586.56 as disallowed costs.

In addition, improper posting of expenditures in the wrong fiscal years resulted in over/(under) claiming. Over/(under) claimed amounts noted as a result of these errors were included in the total disallowed costs noted above.

See ATT 1 – *Schedule of Amounts Budgeted, Recorded, Claimed, and Disallowed.*

**Recommendation**

We recommend DHS follow up with PHI to resolve the disallowed costs and have PHI reconcile its claims to the general ledger.

Also, see Recommendation #1.

**DHS Management Response**

PHI provided additional General Ledger reports to resolve the disallowed costs in the amount of \$7,075.28 for the DHS Public Health (PH) SNAP-Ed program. There are no disallowed costs remaining for agreement number 7207500-17/20-269.

DHS SUPT Program will work with PHI to recoup the disallowed costs for agreement numbers 7206000-20-085 and 7206000-21-085.