

Department of Rehabilitation

Audit Report of the Independent Living Resource Center, San Francisco

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Introduction

The Department of Rehabilitation (DOR) Audit Services has completed an audit of the Independent Living AB204 Grant #28431, Title VIIB #28226 and Title VIIB #28227 with the Independent Living Resource Center, San Francisco (ILRCSF).

ILRCSF is a California nonprofit public benefit corporation. ILRCSF's mission is to ensure that people with disabilities are full social and economic partners, both within their families and in a fully accessible community. This mission is achieved through systems change, community education, partnerships with business, community organizations and government and consumer directed services.

Services provided include: Benefits planning & employment related services, Peer counseling & peer counseling training, Housing counseling, Information and Referral, Assistive technology, Latino community outreach, Chinese community outreach, Transition to community living, Systems change advocacy, Community leadership & advocacy in mentorship, independent living skills training, individual advocacy and community education.

Audit Scope/Procedures

Audit fieldwork was conducted the week of September 17th, 2012 and our exit conference was held on September 21st, 2012. We conducted our audit in accordance with Government Auditing Standards as defined by the Government Accountability Office. These standards require that we obtain reasonable assurance that the expenditures incurred providing grant services are supported by appropriate records; and are in compliance with the Grant, Request for Proposal, and applicable State and Federal laws and regulations. The audit also included a limited review of the internal controls applicable to the DOR grant. Our audit is subject to the inherent risk that material errors and irregularities, including fraud or defalcations, if they exist, will not be detected.

The scope of this audit was limited to reviewing the accounting systems and internal controls applicable to the DOR funding sources to obtain reasonable assurance that billed personnel and operating expenditures are compliant with all applicable federal and state regulatory and legal requirements, and are adequately supported by appropriate records. Our key objective areas included:

- A review of the accounting systems and general internal controls applicable to DOR funding to determine whether they are adequate to accumulate and segregate reasonable, allocable, and allowable costs consistent with federal requirements.
- A review of the grant billing process.

- Sample testing of the effectiveness, efficiency, and compliance of grant controls, billings, and services in accordance with State and Federal regulatory and legal requirements
- Sample testing of documents to ensure adequate support is maintained for the amounts billed for personnel and operating expenses.

Findings and Recommendations

We found that the expenditures incurred were supported by appropriate records; and were in compliance with the Grant and applicable State and Federal laws and regulations except for the issues identified in **Attachment A**.

We would like to thank ILRCSF staff for their assistance with our audit.

ATTACHMENT A

ACCOUNTING SYSTEMS AND INTERNAL CONTROLS

1. Finding - Credit Card Usage

The Executive Director (ED) uses the organizations credit card for the organization's business expenses - e.g. lunch for a speaker in which pre-approval from the Finance Director (FD) or the Board is not needed. However, the ED may also use the credit card for personal expenses, at her discretion, without pre-approval. The receipts are given to the FD for processing. The organization is reimbursed for expenses at the end of the billing cycle.

RECOMMENDATION:

We recommend that ILRCSF follow their current procedure manual or change the manual to reflect their current practices regarding pre approval of credit card transactions. Any changes made needs to be approved by the finance committee and the Board of Directors.

ILRCSF's Response - Summation

ILRCSF doesn't allow personal usage on the company credit card. If a personal expense does get charged by mistake, the ED reimburses the Agency at the end of the billing cycle

2. Finding - Cost Allocation Plan, Benefit Costs and Taxes

While ILCRSF's Cost Allocation Plan (CAP) does meet federal regulations, ILRCSF is not allocating indirect costs based on their filed CAP. Instead, ILRCSF is allocating indirect costs based on the ratio of the program's budgeted percentages. Secondly, auditors found that the benefit costs and taxes were calculated based on the allocation of staff budgeted percentages and varied from staff actual expenditures. For the allocation of benefits and taxes, the staff and the accountant used budgeted time to program time by dividing the percentage of budget over the total percentage of budget. The calculation should be based on the individual's actual benefit cost times employee percentage to AB204. As examples:

- The actual Kaiser costs from the February invoice for one employee is \$508.00. The budgeted percentage under the Grant for this staff person is 52%. Applying this 52% to the actual Kaiser costs of \$508 allows for an allocated amount of \$264.16 that can be billed to the Grant. The Kaiser cost billable to the grant for all employees is \$1,926.25. However, the amount actually allocated to the Grant was \$1,511.81, a difference of \$414.44 which represents an additional benefit that ILRCSF could bill to the DOR.

- ILRCSF incorrectly calculated the total allocation for all employees at \$1,416.90 while the auditor recalculated the total allocation for all employees on an individual basis at \$1,428.77, a difference of \$11.87. This tax difference isn't as significant as the benefit difference. As an example, calculating the individual cost for the same employee above, the gross pay is \$4,916.66. For SSI the tax should be calculated at 6.2% which totals \$304.83. The Medicare tax rate should be 1.45% for a total of \$71.29. The SSI & Medicare taxes total \$376.12. Again, applying the 52% budget amount to \$376.12 equals \$195.58 for this same employee. This same allocation method should have been used for all employees to arrive at the calculated amount of \$1428.77.

RECOMMENDATION:

ILRCSF shall prepare a cost allocation plan that clearly identifies an appropriate, reasonable, and allowable allocation methodology for each item of cost for both direct and indirect expenses that is consistent with their accounting system and federal regulations. ILRCSF shall also ensure the cost allocation plan is used to appropriately allocate direct and indirect expenses consistently across final cost centers/objectives.

ILRCSF's Response – Summation

While our Cost Allocation Plan says that we are supposed to allocate indirect cost based on actual hours charged each program, we have not been doing so. We will make changes to make sure we follow our Cost Allocation Plan. We will have our CPA review our Cost Allocation Plan and make recommendations.

3. Finding - Budget Approval

While ILCRSF's Budget and Budget revision approvals meet federal regulations, the approval process was not in compliance with Federal administrative regulations.

The ILRCSF Board of Directors approved the Budget by email on 7/14/2011 which was after the start of the fiscal year (FY). Protocol for budget approval is usually at the monthly board meeting prior to the end of the FY.

RECOMMENDATION:

ILRCSF shall ensure that future organization budgets are approved prior to the start of the Fiscal Year. ILRCSF shall also consider preparing a preliminary budget based on prior year information to present to the board for approval before the beginning of the Fiscal Year and revise accordingly when funding sources have been confirmed.

ILRCSF's Response - Summation

We will be more diligent in passing the budget before the fiscal year starts. FY2013/2014 was passed before the fiscal year started.

PERSONNEL EXPENSE/TIME REPORTING

4. Finding - Personnel Activity Reports - PARS

ILRCSF does not maintain personnel activity reports (PARS) in compliance with 2 CFR, Part 230. ILRCSF's timesheets for direct service staff are based on budgeted amounts and do not reflect actual hours of staff time. Specifically, in our test sample of four employees for the month of February 2012, we were unable to verify that the time reported to the grant for two employees reflected actual distribution of staff time.

Timesheets are completed to record total hours worked and any leave taken during the pay period. The actual hours were not tracked on a daily basis by staff. Rather, the total hours are attributed to each activity, but not to the correct funding sources.

Based on our interviews with staff, the time is allocated to funding sources based on budgeted estimates rather than actual allocated time.

RECOMMENDATION:

ILRCSF shall ensure that personnel expenses billed to the grant are allowable and supported by adequate records. ILRCSF shall ensure that PARs reflect the actual activity of each staff and that all staff is knowledgeable and complete their timesheets to show the program funding sources applicable to that particular activity.

ILRCSF's Response - Summation

Our PARS does reflect the actual activities of each staff. We have activity-driven timesheets. This activity is recorded by staff. They record their hours worked for each activity. Most of the activities we do are paid by the same funding sources. They are all IL service activities and are all funded by DR204 and the Title VIIC grants. However, our timesheets don't show the relationship between the activities and funding sources. ILRCSF will seek assistance from their CPA.

5. Finding - Operating Expenses - Rent, Membership & Publications

ILRCSF failed to properly allocate the rent, memberships and publications expenses within the operating expense line item and instead, invoiced DOR the full amount of these expenses. Specifically:

1. Rent- ILRCSF's rent increased by \$618.75 beginning in July 2011, however, this rent increase was not reflected in the amounts billed to DOR until the March 2012 budget revenue and reimbursement sheet (BRR) worksheet was submitted. With the March 2012 BRR, the amounts ILRCSF invoiced to DOR were based on:

8 months back rent increase of @ \$618.75	= \$4,950.00
March 2012 full rent price	=\$12,993.75
	Total =\$17,943.75

24.07% allocation \$4319.06
6.67% AT allocation \$1196.85

The eight months of back rent which was charged in full on the March 2012 BRR, rather than being properly allocated each month at the appropriate percentage.

2. Memberships & publications-The membership dues for S.F. Human Services Network were paid in full (\$600.00) rather than being allocated. Several publications from the Chamber of Commerce were also paid in full (\$111.83), rather than being properly allocated each month.

RECOMMENDATION:

ILRCSF needs to prepare and submit their invoices to the DOR to reflect the proper cost allocation methodology as reflected in their cost allocation plan.

ILRCSF's Response – Summation

The Landlord never informed us of a rent increase. Only through a review of the lease agreement by the Finance Director did the FD learn of the rent increase. If we were informed of the rent increase in a timely manner, it would have been charged more appropriately – in a monthly manner starting 7/1/2011. We felt that it was appropriate to pay the back rent increase for the eight months that was owed.

Membership dues for SFHSN were supposed to be allocated to all funding sources. It was an oversight on the FD's part.

Required Action and Follow-up

The California Code of Regulations (CCR), Title 9, §7220 require the IL Vendor to take all appropriate action to correct any deficiencies identified by an IL facility review or an audit conducted by the Department within the period of time established by the Department. To ensure appropriate actions are taken to correct the deficiencies identified in this report, a Corrective Action Plan is required.

1. A Corrective Action Plan shall be prepared by the IL Vendor to address findings 2 and 4. It shall indicate the actions to correct the findings and implement the recommendations identified in this report. The IL Vendor shall consult with IL staff when developing the Corrective Action Plan to assure that the planned actions will be sufficient to correct the deficiencies noted. ILRCSF has indicated that they will work with their CPA to make recommendations on their Cost Allocation Plan as well as their PARS. The Corrective Action Plan is to be submitted by the IL Vendor to Audit Services by Friday, November 18, 2013.