

Department of Rehabilitation
Audit Report of the
Resources for Independent Living of Sacramento

Fieldwork Date: December 7, 11-14, 2012

Final Report Date: October 7, 2013

Control Number: 2012A-105

DOR Audit Services Team:
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Introduction

The Department of Rehabilitation (DOR) Audit Services has completed an audit of the Independent Living AB204 Grant #28419 and the Independent Living Title VIIB Grants #28246 (Technical Assistance Grant) and #28719 (Capacity Building Grant) with Resources of Independent Living of Sacramento (RIL).

RIL is a California nonprofit tax-exempt public charity incorporated in the State of California. RIL promotes the socio-economic independence of persons with disabilities by providing peer-supported, consumer-directed independent living services and advocacy to persons with disabilities in Sacramento and Yolo counties. Services provided by RIL include DOGFITE a consumer-run advocacy group supported by RIL, working to improve quality healthcare, establish universal health insurance, and In-Home Support Services, Advocacy, Information and Referral, Independent Living Skills, Peer Counseling, Support, Housing Referrals, Personal Assistance Services, Housing and Assistive Technology (AT).

RIL received grants from DOR for the following services or activities:

- Grant #28419: Budgeted \$449,683 was provided to develop, continue, or expand, in accordance with the program narrative, independent living programs and services, which may enable persons with disabilities to achieve social and economic independence, inclusion, access and self-determination.
- Grant #28246: Budgeted \$4,000 was provided to train RIL staff, Board members, consumers and community advocates on regional transportation equity issues as they relate to persons with disabilities.
- Grant #28719: Budgeted \$15,000 to allow RIL in partnership with the Area Agency on Aging to become the new Agency and Disability Resource Center for Sacramento and Yolo counties.

Audit Scope/Procedures

We conducted our audit in accordance with Government Auditing Standards for fiscal compliance as defined by the Government Accountability Office, except Standard 3.52 requiring an external peer review. Our audit is subject to the inherent risk that all significant errors and irregularities, fraud, or non-compliance will not be identified.

The scope of this audit was limited to reviewing the accounting systems and internal controls applicable to the DOR grant funding to obtain reasonable assurance that billed personnel and operating expenses are compliant with the Grant and applicable State and Federal requirements, and are adequately supported by appropriate records.

Our key objective areas included:

- A limited 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 accounting records to ensure adequate support is maintained for the personnel and operating expenses billed to the grant; and that the expenses are properly recorded.

Summary of Findings/Recommendations

We found that the grant expenses billed to DOR were materially supported by appropriate records and were materially in compliance with the Grant, RIL's policies & procedures, and applicable State and Federal requirements. Overall, RIL's method for allocating, tracking, maintaining, and documenting grant expenses are effective and staff appears knowledgeable about their responsibilities under the grant. However, we noted several grant compliance issues as identified in **Attachment A**.

Required Action and Follow-up

To ensure appropriate actions have been or will be taken to correct the deficiencies identified in this report, a Corrective Action Plan (CAP) is required.

A CAP shall be prepared by RIL to address each finding. It shall indicate the actions already taken or to be taken that will correct the findings and implement the recommendations identified in this report. RIL shall consult with the DOR ILATS Resource Specialist staff when developing the CAP to assure that the planned actions will be sufficient to correct the deficiencies noted.

The CAP is to be submitted to DOR Audit Services, Attention: Russell Nakata, with a copy to the DOR ILATS Resource Specialist by November 7, 2013. .

Accounting Systems

1. RIL has a payment approval process that resulted in some vendors being paid untimely. The Office Manager accumulates a number of invoices for the Executive Director to approve rather than bringing her invoices upon receipt. This resulted in:
 - Late payment fees for cell phones which were billed to the grant. RIL was unaware that late payment fees were an unallowable expense which can not be billed to the grant.
 - RIL received an invoice dated December 6, 2011 for the January 2012 lease amount and paid it on January 9, 2012, four days after the due date. RIL then received an invoice dated January 6, 2012 for the January and February 2012 lease amount. RIL overlooked that they already made a late payment on January 9, 2012 for January 2012 and paid both January and February.

Proper accounting controls include an adequate process to pay vendors timely to prevent late payment fees and duplicate payments.

Recommendation

RIL discontinue the practice of accumulating invoices for approval from the Executive Director and submit the invoices for approval as they are received.

2. RIL provided an Accounting and Fiscal Operations Manual (Manual) and Administrative Personnel Policies, Procedures and Benefits Handbook (Handbook) that were both updated on October 24, 2012.

In review of the Manual and Handbook, we determined that the policies and procedures contained therein were incomplete. Additionally, RIL did not always follow its policies. For example:

- The Handbook does not include an index or table of contents making it difficult to readily identify and locate information contained therein.
- The Handbook does not contain a travel policy or guidance for staff that travel on grant related business except for identification of the allowable mileage rate. The Handbook lacks the following:
 - A policy for pre-approval of staff travel by the appropriate supervisor or the board for the Executive Director.

- A policy indicating the rate of reimbursement for staff food and lodging expense.
- A policy requiring completion and submission of a travel claim with accompanying receipts to adequately account for all travel expenditures.

RIL provided a Travel Reimbursement Policy which is similar to the travel policy for state employees regarding lodging, meals and short-term travel time frames. The travel policy should be written to align with RIL's needs.

- The Manual states payment will be mailed three days prior to the payment due date; however, RIL was not following this policy (as evidenced in Finding 1).
- The monthly bank reconciliation process identified in the Manual does not include a requirement for signature/date to reflect the individual who performed the reconciliation and date of completion.
- The Manual does not contain procurement policies and/or procedures for the purchase of goods and services. The procurement policies should include the requirement for adequate approvals in advance of the purchase (timely completion and approval of Expenditure Request Forms).

Proper internal controls require that an organization's policies and procedures are current, complete, and implemented to ensure organization objectives are met and adequate controls exist over assets and records.

Recommendation

RIL, in consultation with their DOR ILATS Resource Specialist, review the policies and procedures contained in the Manual and Handbook to identify deficiencies and revise the manuals as appropriate to ensure adequate controls are in place and the organization's goals are met.

3. RIL lacks adequate separation of duties when approving reimbursements to staff and board members. The Executive Director approved her own travel expenses for the Capacity Building Grant as well as approving her own cellphone bills. Furthermore, we found that the Board President signs her own check for mileage reimbursement. The Executive Director and the Board President are both authorized check signers and didn't realize signing their own checks was an inadequate separation of duties.

Proper internal controls include an adequate separation of duties to prevent the possibility of unauthorized expenses and the inappropriate use of grant funds.

Recommendation

The Board shall approve all expenses and reimbursements to the Executive Director. In addition, the Board President shall discontinue signing her own reimbursement checks.

4. Although RIL has a federally-approved Cost Allocation Plan (CAP), they are not allocating and billing operating expenses consistent with the CAP.

RIL's CAP specifies that all expenses used for a specific program will be charged directly and that indirect costs will be allocated based on the ratio of each program's salaries expenses to the total program salaries expenses. RIL is allocating and billing expenses based on allowable costs and dollars available for each of their funding sources. RIL allocates a large share of operating expenses to AB204 because there are more allowable operating expense line items compared to RIL's other funding sources.

2 CFR Part 215.21 requires that the recipient's financial management system shall have written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. The organization must follow its written procedures (CAP).

Recommendation

RIL follow the allocation methodology identified in its approved CAP to accurately allocate and bill for allowable indirect expenses across all applicable funding sources. RIL ensure that costs associated with a specific program (e.g., AT) are charged to that program.

5. RIL recognizes operating expenses on a cash basis rather than an accrual basis. The Office Manager submits the check register and check journal to the bookkeeper to post the paid expense into QuickBooks and prepare the DOR Invoices. The check register and check journal include information such as vendor payment issue date, payee name, line item, funding source, check number and amount.

With cash-basis accounting, you record all transactions in the books when cash actually changes hands. With accrual accounting, you record all transactions in the books when they occur, even if no cash changes hands. Accrual accounting allows for more accurate tracking of revenues and expenses. Federal administrative regulations 34 CFR 74.2 defines accrued expenditures as charges incurred by the recipient during a given period requiring the provision of funds for

goods and other tangible property received and services performed by employees.

Recommendation

RIL consider utilizing accrual accounting. Additionally, RIL could prepare an accounts payable journal based on vendor invoices when they are received. RIL could utilize the accounts payable journal as well as the check journal when billing DOR for operating expenses.

6. In the general ledger, RIL recorded the person who purchased office supplies as the payee rather than recording the vendor where the purchase was made.

Federal administrative regulations 34 CFR 74.21 require standards for financial management systems, including maintaining fund accounting records that accurately account for the funds.

Recommendation

RIL properly record grant purchases by identifying the payee in the general ledger as the vendor where each purchase was made in accordance with accounting principles and federal requirements.

Board of Directors

7. The Board minutes were insufficient to support board activities and actions i.e., approval of the organization budget. The Executive Director stated that the board minutes were criticized in a previous audit visit that they contained too much dialogue between board members before taking a vote. In response, RIL changed to include just the action item with little or no supporting dialogue. The Executive Director stated that she will include more supporting detail in the board minutes moving forward.

Board minutes should contain enough information to make the minutes useful should they ever be used for reference or offered as evidence that an action was properly taken or that the directors fulfilled their fiduciary duties.

Recommendation

RIL include sufficient information in the board minutes to support board activities and financial decisions, including approval of the organization budget prior to the beginning of the fiscal year.

Personnel

8. Workers compensation costs billed to DOR weren't based on actual workers compensation costs for each employee. RIL has two classifications with distinct

rates, Clerical Office Employees (1.15%) and Colleges or Schools, Private (2.87%). RIL billed the workers compensation based on a calculation of the amount of the monthly premium paid to State Compensation Insurance Fund times the percentage of the staff's monthly salary compared to the total of all salaries. RIL's Bookkeeper thought the method was reasonable since the cost of the premium was used in the calculation and represents the amount RIL is actually paying.

The grant requires that actual costs be billed for reimbursement. Federal administrative requirements and cost principles require that the accounting information used to bill personnel expenses be accurate and reliable.

Recommendation

RIL utilize the workers compensation classification rates to calculate actual workers compensation costs for each staff person and bill the grant for the actual allowable costs.

Operating Expenses

9. Although RIL generally calculates the operating expenses based on actual and allowable costs, we noted the following discrepancies:
 - a. RIL used an incorrect allocation percentage when allocating auto insurance costs for the Executive Director's van in January 2012. A clerical error by the bookkeeper and oversight by RIL resulted in the allocation percentage for February 2012 being used for January 2012.
 - b. RIL allocated the cost of equipment (cell phone) to the AB204 grant instead of the general fund.

Recommendation

- a. RIL ensure that allocation percentages used to bill insurance are applied appropriately.
 - b. RIL ensure that expenses are appropriately charged to the correct fund.
10. When reviewing travel related expenditures and reimbursements we noted the following deficiencies:
 - Per Diem was billed for reimbursement rather than actual costs supported by receipts for the Capacity Building Grant.

- A travel expense statement for mileage did not include the purpose of the trip to substantiate that the expense was business related. Instead of indicating Outreach, consumer names were used. Additionally, when claiming mileage expenses, another individual used a modified version of the standard travel expense statement form.
- Expenses associated with two individuals were comingled on one travel expense claim rather than each individual reporting and claiming appropriate expenses.

Recommendation

RIL ensure that all staff use the approved version of the travel expense statement and that each person completes their own travel expense claim.

11. We noted the following deficiencies in completing the Expenditure Requests forms:

- Purchases of supplies did not include the date of approval to ensure the expenditures were approved prior to purchase.
- Information to ensure expenditures was related to the grant. Examples of explanations documented were “See attached” and Summer Giving Ad.
- Approval date prior to the invoice date for a newspaper ad and travel expenses for a consultant

Recommendation

RIL include sufficient information on the Expenditure Requests to ensure the expenditures are related to the grant and the Expenditure Requests are approved prior to the invoice date.

The contents of this report have been discussed with Frances Gracechild, RIL Executive Director; Monica Gracechild, Office Manager; Anson Houghton, Program Manager; Joanne Bodine, Board Member; and Cheryl Kasai, Resource Specialist, DOR Independent Living Section. We appreciate their assistance with our audit.