

**Department of Rehabilitation**

**Audit Services Report**

**Older Individuals who are Blind (OIB)  
American Recovery and Reinvestment Act (ARRA)  
Grant #27662A for Earle Baum Center (EBC).**

**Date: June 1, 2011**

**Control Number: 2010A - 106**

**Audit Team Staff:  
Cecilia Miller, Auditor  
Kerry Gantt, Audit Chief**

## **INTRODUCTION**

The Department of Rehabilitation (DOR) Audit Services Section has completed our desk audit of the Title VII, Chapter 2 Older Individuals who are Blind (OIB) American Recovery and Reinvestment Act (ARRA) Grant #27662A for the Earle Baum Center of the Blind (EBC). The OIB ARRA Grant budgeted for \$210,506 is effective December 1, 2009 through September 30, 2011.

EBC is a nonprofit regional community center in Santa Rosa, CA, serving people with sight loss from the Golden Gate Bridge to the Oregon border. The EBC opened on October 1, 1999 and focuses instruction in three areas: Independent Living Skills, Orientation and Mobility and Assistive Technology Services.

The purpose of the OIB ARRA Grant is to provide specialized services to support the needs of people experiencing sight loss. Through instruction and activities to improve their overall condition along with the reinforcement and support to maintain this improved way of life, the EBC will provide a positive direction for many people currently at high risk.

EBC's Goals and Objectives under the Grant include:

1. Conduct 100 to 150 Low Vision Evaluations.
2. The Low Vision Evaluation will take place at the EBC's current facility in Santa Rosa, through the conversion of existing classroom space.
3. To assure safety and reliability, the EBC will purchase two passenger vehicles to transport instructors and their clients to class and training locations.
4. Each instructor will also be provided with a laptop computer and peripherals to assure greater productivity.

## **SCOPE**

Audit fieldwork was conducted during January - March 2011 and our exit conference was held on April 11, 2011. We conducted our audit in accordance with Government Auditing Standards as defined by the Government Accountability Office, except Standard 3.52 requiring an external peer review. These standards require that we obtain reasonable assurance that the services provided and expenditures incurred are supported by appropriate records; and are in compliance with the Grant, and applicable State and Federal laws and regulations including Title 2 CFR Part 230. Our audit is subject to the inherent risk that material errors and irregularities, including fraud, if they exist, will not be detected.

Our audit included examining, on a sample basis, evidence supporting the information included on the Budget and Reimbursement Requests (BRR) submitted to DOR. Our audit also included a limited review of the internal controls as they relate directly to our audit of the BRR through use of an accounting system and internal control questionnaire.

### **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**.

### **EBC'S RESPONSE TO THE AUDIT**

The Earle Baum Center has four (4) CPA's including two (2) board members, one (1) outside auditor, and our accounting firm that has established the protocols for our Chart of Accounts and General Ledger expenses. The difficulty in differentiating each individual requirement even within the Department of Rehabilitation makes it nearly impossible to come up with a clear and easily recognized solution.

Several years ago, a DOR accountant when observing the complexity of the requirements even suggested we maintain a separate set of books. Whether ingest or serious, it is of course, more than inappropriate to have two (2) sets of books even if it makes recordkeeping appear more clear. We are satisfied that our Chart of Accounts and General Ledger expenses satisfies all best practices of accounting and properly allocates all funds and expenses.

**We would like to thank Earle Baum Center staff for their assistance with our audit.**

**ACCOUNTING SYSTEMS/FUNDING**

1. EBC does not have a cost allocation plan that identifies an appropriate, reasonable allocation methodology and allocation base for each item of cost for both direct and indirect expenses. EBC was not aware that they were required to have a cost allocation plan. By not having a cost allocation plan there is no assurance that direct and indirect expense allocations are reasonable and consistently applied across various funding sources and general administration.

2CFR Part 230 Cost Principles for Non-Profit Organizations establishes the principles for determining the costs of grants, contracts and other agreements with the federal government. It contains the following definitions:

- A. Allocable cost. A cost is allocable to a particular cost objective, such as a grant, in accordance with the relative benefits received.
- B. Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization.
- C. Indirect costs are those that have been incurred for common/joint objectives.

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.

**RECOMMENDATION**

EBC shall develop a written cost allocation plan that identifies a methodology for allocating direct/indirect expenses that measures the benefits to each funding source and is consistent with federal regulations. A sample cost allocation plan was sent to EBC for guidance.

2. EBC does not appear to have an appropriate cost accounting system that is adequate to segregate costs. EBC provided Profit and Loss statements rather than a general ledger and the Profit and Loss statements are not sufficient to meet federal cost accounting requirements because they do not accurately show the amounts of personnel and operating expenses allocable and billable to the DOR OIB ARRA Grant.

We noted that although EBC accounts for the revenue received based on funding source/program activity, the chart of accounts and Profit and Loss statement do not separate expenses to cost centers based on funding source/program activity.

Additionally, discrepancies were noted between the account codes in the chart of accounts and those utilized on the Profit and Loss statement e.g. January 2010 Profit and Loss statement indicated supplies category 6080 and noted sub-categories of 6081-6084, but on the chart of accounts SUPPLIES were noted as sub-categories 6080A-D.

Recording of the expenses in total rather than separately to the applicable funding source could cause EBC to be unable to support the amounts of expenditures billable to DOR and other funding sources as appropriate. Additionally, without an adequate accounting system supported by source documents EBC's audit trail could be deficient.

Good accounting controls require that expenses billed to the grants should be accurately recorded in the general ledgers to support/monitor grant expenses.

2CFR Part 215.21 states, that the recipient's financial management systems shall provide for records that identify adequately the source and application of funds for federally-sponsored activities and accounting records including cost accounting records that are supported by source documentation.

### **RECOMMENDATION**

EBC shall maintain proper fund and cost accounting systems in compliance with federal regulations. EBC shall ensure the chart of accounts and general ledger separate expenses to cost centers based on funding source/program activity. EBC shall also ensure accounting records including cost accounting records are supported by source documentation.

### **GRANT PROVISION COMPLIANCE**

1. EBC did not have certifications for three of their staff verifying completion of the DOR ARRA Fraud Training required by the grant. EBC stated that all employees involved were trained, but not aware that they were required to submit their certifications back to DOR OIB program.

Standard Grant #27662A, ARRA Agreements-Subvention, Supplemental terms and conditions for contracts using ARRA funds 11. Fraud Training: states the Contractor, its employees or any individuals performing activities related to this contract shall certify completion of DOR ARRA Fraud Training no later than 30 days upon contract award.

### **RECOMMENDATION**

EBC shall ensure grant requirements are met. Following the auditor's request all certifications were submitted for staff involved with the DOR OIB ARRA Grant.

## **PERSONNEL EXPENSE/TIME REPORTING**

1. Although PARs were prepared by EBC as required by federal regulations, the PARs for July 2010 did not adequately support the staff salaries billed to DOR. There were inconsistencies/discrepancies within the PARS as follows:
  - The Low Vision Therapist's PAR shows 170.25 total hours worked of which 65.5 were ARRA hours, equating to 38%. However, the BRR indicates 173.32 hours rather than 170.25 hours. The difference in hours resulted in a minor difference in personnel costs billed of \$27.77.

In addition, EBC calculated the percentage of Low Vision Therapist's time to the OIB ARRA Grant by dividing the OIB ARRA hours(65.5) by total paid hours (170.25), which includes leave time (July 4 holiday), rather than dividing by the total hours worked (162.25). This resulted in EBC billing personnel costs at a reduced percentage of 38% rather than 40%.

- The First Bookkeeper/Administrative Assistant's PAR shows 160.5 total hours worked and 59 total ARRA hours, which equates to 37%. However, the Auditor calculated 168.5 hours and 59.25 hours respectively, which equates to 35%. The differences seem to be due to a math error.

Further, the BRR indicates 176 hours which appears to include 8 hours holiday pay. As indicated above for the Low Vision Therapist it is better not to include holiday hours when calculating the percentage of personnel costs billable to DOR.

Billing holiday or leave time incorrectly could result in an over/under billing. Incorrect math calculations can also result in over/under billing.

2CFR Part 230 states charges to awards for salaries and wages, whether treated as direct costs or indirect costs will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by PARs.

## **RECOMMENDATION**

EBC shall ensure that the PARs are accurate and support personnel costs billable to the OIB ARRA Grant. EBC shall not include holiday/leave time when calculating the percentage of time billable to ensure DOR pays for its share of employee leave.

2. EBC submitted Personnel Activity Reports (PARs) for two bookkeeper/administrative assistants that reflected their hours worked;

however the time sheet column for ARRA hours is entitled regular hours. The two employees are 100% committed to ARRA which is why EBC did not think it was necessary to identify ARRA on the timesheet. Unless an inquiry was made the reviewer would be unable to determine that the hours were ARRA related.

2CFR 230 Appendix B, Paragraph 8, Compensation for personal services m. (2) Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards: (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

### **RECOMMENDATION**

EBC shall clearly denote on the employee PARS the time spent on activities related to the OIB ARRA Grant.

### **OPERATING EXPENSE**

1. When reviewing support for the \$681.96 ARRA reimbursement request for line item 1 Operating Expense (indirect costs) it was determined the amount was not fully supported. Specifically, EBC provided a worksheet identifying expenses totaling \$5682.95, of that amount 12% (\$681.95) was billed to DOR. The North Bay Copier purchase was overstated on the worksheet by \$855.00. EBC reported an error was made on their worksheet. As such, the operating expense was slightly overstated.

Standard Grant #27662A Conditions of Grant Administration, Reimbursement Requirements – All expenditures shall be reimbursed in arrears.

### **RECOMMENDATION**

EBC shall only bill for actual costs incurred and paid. EBC shall review their worksheets for accuracy prior to using the worksheet data to bill DOR. No financial adjustment will be made as the amount is considered immaterial.

### **EQUIPMENT**

1. EBC does not have a current written policy for purchasing equipment in compliance with the Grant provisions. Without a written policy for purchasing equipment chances are greater for inaccuracies.

In addition, EBC was unable to submit documentation evidencing that bids were obtained for the purchase of the two vehicles totaling \$50,000. EBC states they did not follow the bid process because there were no other dealers

that had the vehicle that they wanted to purchase therefore there was no bid documentation to submit.

EBC indicated that the Hansel Ford Dealer was the sole purchase vendor. However, the auditor found that there are other car dealers in the area including another Ford Dealer 11 miles away from the Hansel Ford Dealer.

Standard Grant #27662 Provisions (II. Conditions of Grant Administration, F. Bid Requirements) states Subgrantees must have a written purchasing process for all equipment with a unit cost or groups of similar items for line items of \$1,000 or more. The process should reflect an effort by the Subgrantees of obtaining the lowest price.

### **RECOMMENDATION**

EBC shall write up their policies for purchasing equipment for consistency, accuracy, and compliance with grant terms. The policy should reflect an effort to obtain the lowest price. EBC shall ensure a bidding process is followed in future to obtain the lowest price for purchasing equipment exceeding \$1000.