

Department of Rehabilitation

Audit Report of the

Center for Independence of Individuals with Disabilities

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Introduction

The Department of Rehabilitation (DOR) Audit Services has completed an audit of the Independent Living (IL) AB204 Grant #28441 for Fiscal Year (FY) 2011-2012 with the Center for Independence of Individuals with Disabilities (CID).

CID is a private, nonprofit corporation located in San Mateo, California. Incorporated in 1979, CID, is a consumer-driven, community-based, services and advocacy organization serving San Mateo County. Its mission is to increase the social, educational, and economic participation of persons with disabilities in San Mateo County, and to encourage, support, and provide options for self determination, equal access and freedom of choice.

Core IL services provided by CID include: 1) Information and Referral, 2) Cross-Disability Peer Counseling, 3) Independent Living Skills, 4) Individual/Self Advocacy, 5) Housing Assistance, and 6) Personal Assistant Services.

Audit Scope/Objectives

We focused on the IL AB204 Grant #28441 for FY 2011-2012. Although CID had three additional Title VIB Grants (#28387, #28672, #28728) for FY 2011-2012, to date, CID has not submitted reimbursement requests to DOR. Audit fieldwork was conducted during August and September 2012. 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 significant errors and irregularities, fraud, or non-compliance will not be identified.

Our audit objective areas included:

- A review of the grant personnel and operating expenditures incurred to determine whether they are supported by appropriate records; and are in compliance with the Grant and regulations; specifically, 2CFR Part 215 and 2CFR Part 230.
- A review of the accounting systems, records, and internal controls applicable to DOR funding to determine whether they are adequate to accumulate and segregate reasonable, allocable, and allowable costs consistent with federal regulations; specifically, 2CFR Part 215 and 2CFR Part 230.
- A review of CID's Independent Auditor's Reports including financial statements prepared in accordance with the American Institute of Certified Public Accountants Statements on Auditing Standards and OMB Circular A133.
- A review of the IL AB204 grant billing process.
- Interviews with CID staff.

Background Information Obtained Prior to Audit Fieldwork

In December 2009, DOR's IL Section conducted a program compliance review. The Compliance Review Report identified significant program and fiscal issues requiring correction to be in compliance with the Grant, Handbook, and applicable state and federal regulations.

On February 17, 2010, an independent auditor issued a letter to CID regarding matters which they felt were serious and needed prompt attention to assure the survival of CID. The independent auditor recommended that CID address the issue of financial solvency immediately or CID will not survive.

Independent audit reports for fiscal year ending 2009, 2010, and 2011 have each articulated a "Going Concern". The American Institute of Certified Public Accountants (AICPA) indicates conditions and events that can indicate going concern issues for a not-for-profit organization include:

- Negative trends such as working capital deficiencies and negative cash flows from operations, and non/late payment of expenses due.
- Indications of possible financial difficulties such as defaulting on loans, restructuring of debt, and needing to seek new sources of financing (including loans from staff/board members).

CID was informed that its cash advance privilege would be suspended by DOR beginning April 1, 2012. The DOR requires that cash advances against grants be provided to fiscally sound organizations capable of administering grant funds. As such, CID was required to seek reimbursement for grant related expenses. Nonetheless, CID has repeatedly requested and received emergency cash advances and expedited invoice processing from DOR in order to pay employees and vendors so that mandatory IL services can continue to be provided.

Audit Findings

The financial health and fiscal solvency of a nonprofit organization is important in the assurance of the provision of required services to consumers. Our review of CID's fiscal documentation and interviews conducted with DOR staff and CID staff revealed that CID still faces considerable financial instability. Several factors are contributing to CID's fiscal instability including:

- Operating in a Deficit
- Operating with Decreased Revenue
- Operating with Inadequate General Fund/Cash Reserves
- Operating with Significant Delinquent Accounts Payable
- Operating with Inadequate Budget Forecasting
- Operating with Accounting System Deficiencies

Operating in a Deficit

- As reported in the independent auditor report for FY end June 2011, although CID had total revenue of \$1,196,015, it was not enough to cover expenses, leaving a negative net asset balance of \$140,998.

CID's expenses increased by 13% as of FY end June 2011; \$1,337,013 when compared to \$1,185,310 as of FY end June 2010. The three expenditure line-items that noticeably increased were:

- Consultant and Contractor increased from \$67,455 to \$195,956, an increase of 190.50%. An interim Executive Director was paid over \$115,000 by CID as a consultant during the FY 2010-2011. Additionally, approximately \$3,000 per month was paid for IT consulting.
 - Equipment Lease and Maintenance increased from \$12,333 to \$45,072, an increase of 265.46%. CID utilized American Recovery and Reinvestment Act (ARRA) funds to purchase new computers and computer systems.
 - Office Supplies and Printing increased from \$21,963 to \$62,351, an increase of 183.89%. In addition to routine office supplies, CID also utilized ARRA funds to purchase the services of a feng-shui advisor and a large amount of feng-shui related items to decorate the facility.
- It appears continued cost overruns with the Housing Accessibility Modification (HAM) program is another major reason CID is operating in a deficit. Over the course of four fiscal years (2008 through 2011), the total income for HAM was \$569,957, yet total HAM expenses were \$892,808; resulting in a deficit of \$322,851.

While attentive and responsive to client needs for home modification, it appears CID did not develop adequate organizational infrastructure, (e.g., accounting practices, program evaluation mechanisms, reporting systems) to effectively manage the HAM program contributing to the significant cost overruns.

- Additionally, we noted that CID's current Profit and Loss statement for the Quarter April through June 2012 evidenced CID's expenses continue to exceed revenue primarily due to personnel costs and the HAM program. CID's total expenses for the quarter were \$307,927 compared to income of \$245,873 leaving a balance of \$62,054 negative net income.

Operating with Decreased Revenue

CID is currently administering an organization without a revenue stream which in recent past years included ARRA funding, Client Assistance Program funding (CAP), and Work Incentives Planning and Assistance Program funding (WIPA).

CAP and WIPA funding terminated in January 2012 and June 2012, respectively. Further, CID has been unable to capture some budgeted AB204 funds. As of August 2012, CID would optimally have expended around 92% of their budget. However, CID has expended 85% of their personnel budget and 66% of their operating budget. A total of \$76,503 remains in the grant budget.

Operating with Inadequate General Fund/Cash Reserves

- General fund is a source of unrestricted funds used to pay for expenditures while awaiting reimbursement of restricted grant funds. It can also be utilized to cover expenditures that federal grant funds prohibit. CID's general fund was budgeted at \$75,000 for FY 2011-2012. CID did not achieve its anticipated general fund balance, rather, far less. As of August 2012, approximately \$10,000 was available in the general fund. CID's limited source of general funds is detrimental to the organization.
- Along with having inadequate general fund, CID has no alternative source of readily accessible cash. As reported in the CPA report for FY end 2011, CID's line of credit was eventually converted to a loan since CID could only afford to paying interest, not any principal. CID paid the outstanding loan amount of \$43,333 with a certificate of deposit held as collateral value for the outstanding loan. As of August 2012, CID's Executive Director was in the process of finding a financial institution that will provide CID another loan or line of credit. It appears, the Executive Director is placing heavy reliance on a line of credit or loan to make up for the revenue shortfall. A line of credit or loan will become another burdensome fiscal obligation for an already cash strapped organization.
- CID's fundraising efforts and outcome has been extremely limited during the past two fiscal years. Although the 2012 Board minutes reflect a continued emphasis on the importance of fundraising; CID has failed to successfully raise adequate funds. Further, if the Board Members had ongoing concerns, we saw no evidence of timely action taken to address the lack of fundraising. In July 2012, the Executive Director advised DOR that grant proposals were in process to a number of potential supporters including Safeway, Target, City of Burlingame, Union Bank, Sidney Stern Memorial Trust, and the George H. Sandy Foundation. He also indicated that fund development plans were in process for special events and one-on-one solicitation. As of September 2012, CID's financial records do not evidence any actual funds generated as a result of said efforts.

Operating with Significant Delinquent Accounts Payable

As of August 2012, over \$85,000 in accounts payables were outstanding. These payables include past due rent for both CID locations, past due payments on

leased equipment, past due insurance, and past due payments for contractual services. CID's inability to remain current on critical financial obligations puts it at significant risk for future disruption in business operations impacting its ability to provide mandatory independent living services.

Operating with Inadequate Budget Forecasting

- It was reported in the CPA report for FY end 2011 that CID's budgeting procedures provided for the preparation of an annual budget at the beginning of the year based on a projected fixed level of activity for each fund; however, the procedures did not call for updating the budget for the operational changes or changes in the level of activity during the year.
- In review of CID's projected budget for the quarter of July 2012 through September 2012, the Executive Director proposes expenditure reductions of \$26,417 per month. However, CID's budget projections for this budget period and FY 2012/2013 fail to account for resolution of pending delinquent accounts payable. CID staff hasn't acknowledged specific funding to resolve these delinquencies; however, it wouldn't be appropriate to resolve these delinquent payables with next fiscal year AB204 or Title VII C funding available as of October 2012.

Operating with Accounting System Deficiencies

- CID's Fiscal Manager has been working to clean up the internal accounting records and systems. This is being accomplished with use of a new computer system, cleaning up existing financial records within the QuickBooks accounting system, and starting with a new presentation of financial information within QuickBooks as of July 2012. As part of this new presentation, the general ledger will account for revenue and expenditures by fund (class). However, as of August 2012, the general ledger does not yet reflect the shared/indirect allocable expenses by class.
- CID's federally approved Cost Allocation Plan (CAP) indicates that indirect costs will be allocated "based on the ratio of a program's direct salary to the total direct salary costs of all programs". Instead, CID is utilizing an alternative methodology for indirect costs, which is "based on the ratio of a program's total salary to the total salary costs of all programs"; omitting the word "direct". We determined that the allocation basis is reasonable but needs to be reflected in CID's CAP for assurance that the indirect expense allocations are appropriate and reasonable and consistently applied across various funding sources and general administration.

Auditor Conclusion

We have identified several factors indicated above as contributing to CID's ongoing financial problems. CID will continue to face overwhelming financial hardship unless significant increases in revenue and decreases in expenses are attained. CID's unstable fiscal condition calls into question its ability to continue to provide the required grant services and moreover, the viability of the organization as a whole.

Auditor Recommendations for Corrective Action and Follow Up

- CID shall develop a six month operating plan with specific goals, benchmarks, and deliverables including staffing levels, financials (revenue and expenditures), cash flow (general fund/reserves), and service projections. The development, implementation, and monitoring of such a plan is critical CID's future financial condition and viability.
- CID shall remit the plan to DOR's IL Section by November 26, 2012 with a copy to DOR's Audit Section. DOR's IL Section, in consultation with DOR's Audit Section, shall review, and if deemed acceptable, approve the operating plan.
- DOR's IL Section shall continue to monitor CID's plan deliverables, on a monthly basis, and its ability to achieve ongoing fiscal solvency to ensure grant funds are safeguarded and consumer services are not jeopardized.
- CID's Board of Directors shall monitor the Executive Director's performance to ensure adequate knowledge, skills, and abilities to run the organization successfully in accordance with the duties identified in the Executive Director position description.
- CID's Board of Directors shall ensure they have the knowledge, skills, and abilities to provide adequate oversight, including obtaining board training and recruiting board members with adequate fiscal experience.
- CID shall establish and maintain proper accounting system and internal control procedures to protect the organization's assets and provide assurances of the accuracy of financial information, effectiveness and efficiency of operations, and compliance with the Grant, Grant Handbook, and applicable federal regulations.