

Department of Rehabilitation
Audit Report of the
Services Center for Independent Living of Claremont

Fieldwork Date: October 15-19, 2012

Report Date: June 10, 2013

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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 #28440 and the Independent Living Title VIIB Grants #27979, #28293 and #28727 with Services Center for Independent Living of Claremont (SCIL).

SCIL is a California nonprofit tax-exempt public charity incorporated in the State of California. SCIL advocates for inclusion, access and self-determination for person with disabilities, assisting people of all ages in cities throughout southeast Los Angeles County, East San Gabriel Valley and Pomona Valley in achieving and maintaining independence. Services provided by SCIL include Advocacy, Information and Referral, Independent Living Skills, Peer Support, Housing Referrals, Personal Assistance Referrals, Deaf Services, Workshops/Discussion Groups, Youth Program, and Assistive Technology (AT).

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

- Grant #28440 (effective 10/1/11-9/30/12): Budgeted \$423,545 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 for person with disabilities.
- Grant #27979 (effective 8/30/10-8/29/11): Budgeted \$4,000 was provided for the development of board members and the organization.
- Grant #28293 (effective 6/6/11-6/5/12): Budgeted \$3,000 to subsidize travel costs for the SCIL Systems Change Advocate and Independent Living Specialist.
- Grant #28727 (effective 6/30/12-9/30/12): Budgeted \$15,000 to obtain technical assistance to create a long-range strategic plan and strengthen board of directors.

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 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 were compliant with

the Grant and applicable State and Federal requirements, and were 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 was 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, SCIL's policies & procedures, and applicable State and Federal requirements. Overall, SCIL'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 are taken to correct the deficiencies identified in this report, a Corrective Action Plan (CAP) is required.

A CAP shall be prepared by SCIL that identifies actions to correct each finding and implement the recommendations identified in this report. It shall describe the actions already taken or to be taken, including the date of completion. SCIL shall consult with the DOR ILATS Resource Specialist 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 July 10, 2013.

Accounting Systems

1. SCIL prepares the grant invoices for operating expenses using the Profit and Loss Statement. However, we noted errors on the general ledger as well as discrepancies between the general ledger, transaction detail report, and the profit and loss statement. For example:
 - A transaction for Staples office supplies appeared twice on the transaction detail report but only once on the general ledger. The contracted bookkeeper explained it was a clerical error and the amount of the purchase order may also have been entered into the accounting system since it looked similar to an invoice.
 - The Travel AT transaction detail report totaled to slightly more than the travel amounts reported on the general ledger. The contracted bookkeeper explained that she does not know the reason for the difference but it was corrected.
 - Three voided checks paid to a vendor for self-storage were not removed from the general ledger. The transaction report reflected 14 payments between Oct 2011-Sept 2012 and the contracted bookkeeper indicated three of the checks were subsequently voided but she overlooked removing the voided checks from the general ledger.
 - SCIL billed DOR for a duplicate rent expense payment made in June 2012 for the Claremont location. SCIL received notice from the landlord informing them that they owed \$3,553.20 including past due rent. The amount was based on the current rent amount of \$2,052.96 plus \$1,500.24, (19 months of past months rent increase of \$78.96). SCIL issued a check to the landlord for \$3,553.20, overlooking that they already paid \$1,974 for rent at the beginning of that month. The landlord acknowledged the duplicate payment and SCIL applied the credit for the allocated portion of the January 2013 rent.

Recommendation

SCIL shall ensure amounts posted on the general ledger are accurate and routinely reviewed to detect and address any errors or questionable items in a timely manner. When preparing the DOR invoices, SCIL should use the general ledger that contains transaction details rather than the profit and loss statement which only reflects the account totals. This will assist in ensuring the correct amounts are billed.

In addition, SCIL shall reimburse DOR \$1,598.94 for the portion of the June 2012 duplicate rent payment allocated to AB204 and AT. Further, SCIL shall retain documentation to support the payment history and the month the credit is applied for an adequate audit trail.

2. SCIL provided an Accounting Procedures Manual (Manual) and Employee Handbook (Handbook) that were approved by the Board on September 10, 2012 which was 20 days prior to the FY 2011/2012 AB204 grant termination date. The Executive Director explained that SCIL always had a Handbook and this was a Board approved update; however, SCIL did not previously have a Manual.

In review of the Manual and Handbook, we determined that the policies and procedures contained therein were inaccurate and/or incomplete. For example:

- Although the contracted bookkeeper does monthly bank reconciliations, this process was not included in the Manual.
- Neither the Handbook nor Manual contains a travel policy for staff that travels on grant related business. In the Health and Safety section of the Handbook, it mentions that mileage reimbursement rates will be established by DOR; however, SCIL lacked a formal process to assure the mileage rates reimbursed are current. The reimbursement rate of 50.5 cents per mile that was billed to DOR was not the current rate of 55.5 cents per mile during the 2011/2012 Fiscal Year.
- The Handbook contains some definitions and descriptions pertaining to exempt employees and contract employees that are not clear and need to be more clearly defined to avoid confusion.

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

Recommendation

SCIL, in consultation with their DOR ILAT Resource Specialist, review the Manual and Handbook policies and procedures to identify specific deficiencies and revise, as appropriate, to ensure consistency in center activities, decision-making, and reporting. Further, SCIL consult with an

individual knowledgeable in human resources to ensure the definitions and descriptions for exempt and contract employees are proper and clear. SCIL explained that one of the Board members may have the desired knowledge to assist.

3. The Board minutes were insufficient to support approval of the organization budget. The Board Chair explained the organization budget was approved verbally at the Board meeting prior to the beginning of the fiscal year, but it was not documented in the board minutes for the past two fiscal years (2011/12 and 2012/13).

Federal regulations require that organizations maintain:

- Appropriate fund accounting systems and practices are in place and consistently followed by SCIL staff.
- Internal controls are identified and implemented to safeguard assets.
- Appropriate financial and billing procedures that are documented and followed to ensure compliance with 2 CFR 230 requirements.

Recommendation

SCIL include sufficient information in the board minutes to support board activities and financial decisions including approval of future organization budgets before the beginning of the fiscal year.

4. Internal controls could be improved to ensure sufficient safeguarding of assets, for example:
 - The Executive Director allows the Program Manager to use his agency credit card to make purchases because there is only one credit card and he prefers it as a method of payment. He prepares a permission letter for the Program Manager to give to the vendor.

In addition, the credit card statement is not approved by the Board. As such, unauthorized or unallowable purchases could go undetected. The Board Chair explained that the contracted bookkeeper is familiar with the credit card purchases since she receives the receipts and would notify the Board of any inappropriate purchases. The Board Chair agreed that it would be reasonable to review the Executive Director's credit card statement and would like to make it a policy.

Proper internal controls include adequate security of the agency credit card and adequate review of credit card usage to determine whether charges are appropriate and related to the organization's business.

Recommendation

The Executive Director shall ensure that the agency credit card is adequately secured. Further, the practice of giving the agency credit card and permission letter to the Program Manager for business related purchases should be discontinued. In addition, the Board shall review the credit card usage to determine whether charges are appropriate and related to the organization's business.

SCIL's contracted bookkeeper informed us that the board wants stronger controls over the credit card and its use so a credit card policy will be developed for the Manual for board approval.

- SCIL lacks evidence to support prior approvals for grant related purchases. The Executive Director stated he gives verbal authorizations to staff for purchases less than a \$1,000; he does not evidence this approval in writing. He explained that the organization is small and he is aware of what staff is purchasing.

Proper accounting procedures require an adequate audit trail for purchases including prior approval (P.O), vendor invoice, and proof of payment (cancelled check/bank statement).

Recommendation

SCIL develop a purchase order document or equivalent to sufficiently document approval for grant related purchases.

- The Executive Director does not review the grant invoices prior to signing and submitting them to DOR because he relies on the contracted bookkeeper to prepare the grant invoices accurately. By not reviewing the invoices, the Executive Director has no assurance that the grant invoices are accurate and expenses are appropriate, reasonable and necessary.

The grant invoice states that the Claimant's Signature certifies that all expenditures claimed on this form have been made under the terms or our agreement with the State of California Department of Rehabilitation.

Recommendation

The Executive Director shall perform an adequate review of the grant invoices prior to signing to ensure expenses are appropriate, reasonable and necessary in accordance with federal cost principles and terms of the grant.

5. Although SCIL has a federally-approved Cost Allocation Plan (CAP), they are not billing grant expenses consistent with the CAP.

SCIL'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 a program's direct expenses to the total of all program's direct expenses. SCIL is allocating and billing all direct and indirect grant expenses based on budgeted percentages between the AB204 (65%), Assistive Technology (15%), and Title VIIC grants (20%).

SCIL explained that the federally approved CAP was inherited from the former Executive Director and contracted bookkeeper and SCIL received guidance from the DOR Independent Living Section to continue billing AB204 and Title VIIC expenses based on budget.

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

SCIL review and update the CAP to accurately reflect the method used to allocate allowable indirect expenses across all applicable programs. SCIL ensure that any costs used for a specific program (e.g., AT) are charged directly to that program.

6. SCIL's fundraising efforts and resulting contributions to the general fund are considerably limited. SCIL's general fund was budgeted at \$18,500 for FY 2011-2012 and \$24,000 for FY 2012-2013. SCIL's primary fund raiser is an annual community event. The annual fund raiser held in October 2012 grossed approximately \$4,000 - \$5,000. SCIL received donations from individuals and businesses in the community; however, the amounts received were not substantial.

Ensuring adequate general fund through fundraising is imperative as general funds are a source of unrestricted funds used to pay for expenditures while awaiting reimbursement of restricted grant funds and can also be used to cover expenditures that federal grant funds prohibit.

Code of Federal Regulations, Title 34, 366.63 states the center shall provide evidence its most recent annual performance report that it has conducted resource development activities within the period covered by the performance report to obtain funding from sources other than Chapter 1, Title VII of the Rehabilitation Act.

Recommendation

SCIL develop and conduct resource development activities to expand sources of unrestricted funding to increase the general fund. Further, SCIL contact their DOR IL Resource Specialist to discuss obtaining a Title VIIB technical assistance grant to assist with resource development activities.

Personnel

7. Although SCIL calculates the personnel costs based on actual and allowable personnel expenses, we noted the following discrepancies:
 - The workers compensation rates used to calculate the amounts billed to DOR were less than the actual rates paid by SCIL. As a result, workers' compensation costs were under-billed. The contracted bookkeeper had not updated the spreadsheet used by the prior contracted bookkeeper to reflect the current rates.
 - Due to a clerical error, medical insurance costs for the Executive Director were incorrectly entered on the benefits worksheet resulting in a slight overbilling.
 - Although the payroll register prepared by the payroll service calculates the employer payroll tax amounts (FICA, Medicare and SUI) for each employee during a pay period, SCIL does not bill the actual payroll tax amounts for each grant employee. Rather, SCIL prorates the total payroll tax amount for each pay period equally across all employees. This may result in an overbilling or underbilling of employer payroll taxes to a particular funding source.

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

SCIL ensure that employer paid tax and benefits are accurately calculated and reported to DOR by doing the following:

- Revise the personnel worksheet to include the current workers compensation rates and ensure that the worksheet is updated when SCIL receives notice of any future rate changes.
- Revise the personnel worksheet to include the accurate amount paid for the Executive Director's medical insurance cost and ensure that the worksheet is updated annually or when costs change.
- Revise the personnel worksheet to calculate the actual employer payroll FICA, Medicare, and SUI taxes for each grant funded staff.

8. The Assistive Technology Specialist/Deaf Services AT (Specialist) does not properly allocate her actual time spent on specific program activities. Although she prepares a timesheet for payroll purposes, she did not document her time spent on activities related to AT grant services. Thus, SCIL was unable to identify the actual hours spent on AT services. The Specialist stated she was unsure how to accurately track specific AT time from core IL services.

2 CFR Part 230, "Cost Principles for Non-Profit organizations (formerly OMB A-122) requires that personnel activity reports must be maintained to support personnel costs and must meet the following requirements:

- The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates do not qualify as support for charges to grants.
- 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

SCIL ensure that personnel expenses billed to the grant are allowable and supported by adequate timekeeping records that are maintained in accordance with federal regulations.

Operating Expenses

9. Although SCIL generally calculates the operating expenses based on actual and allowable costs, we noted the following discrepancies:
- Mileage and business card costs incurred by all employees were allocated based on budgeted percentage. However, the grant AT line item can only be charged for expenses for employees performing AT duties/activities. SCIL did not realize AT is considered a separate fund within the total grant budget.
 - SCIL did not bill for rent and the security alarm using the allocation methodology identified in the CAP (indirect costs will be allocated based on the ratio of a program's direct expenses to the total of all program's direct expenses). SCIL incorrectly billed based on budget percentages. Moreover, SCIL neglected to update the budget worksheet used for allocation purposes thereby using previous budget percentages.

Recommendation

SCIL ensure that expenses such as mileage, conference, travel and office supplies that are specific to AT staff are charged appropriately.

SCIL ensure that indirect operating costs such as rent are billed based on the allocation methodology identified in its CAP. Further, SCIL shall ensure the allocation worksheet is reviewed and revised for accuracy.

The contents of this report have been discussed with Dr. LeRoy Nattress, SCIL Executive Director; Susan Pearson, Independent Contractor (Contracted bookkeeper); Felicia Apodaca, Program Manager; and Dwight Bateman, Resource Specialist, DOR Independent Living Section. We appreciate their assistance with our audit.