

Department of Rehabilitation

Audit Services Report

**Older Individuals who are Blind (OIB)
American Recovery and Reinvestment Act (ARRA)
Grant #27660A for the Center for the Partially Sighted (CFTPS)**

Date: June 6, 2011

Control Number: 2010A - 109

Audit Team Staff:

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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 #27660A for the Center for the Partially Sighted (CFTPS). The OIB ARRA Grant budgeted for \$500,000 is effective December 1, 2009 through September 30, 2011.

The mission of the CFTPS is to promote independent living for people of all ages with impaired sight by equipping them with low-vision aids and/or by providing counseling and training to lead independent and productive lives.

The purpose of the OIB ARRA Grant is to provide comprehensive and efficient low vision rehabilitation services to a greater number of older adult consumers in Greater Los Angeles County. The CFTPS Grant Goals include:

1. Having an easily accessible website in English and Spanish and outreach in Mandarin Chinese, Korean, English and Spanish.
2. Having geographical diversity of service locations to serve older adults who live in the Los Angeles area.
3. Training of Occupational Therapists in the Greater Los Angeles/MidCities and Van Nuys/Foothills districts to meet the demand for rehabilitation service (classroom curriculum with low vision experts and ongoing inservices)

SCOPE

Audit fieldwork was conducted during January-March 2011 and our exit conference was held on April 22, 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 and Title 2 CFR Part 215. 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, follow-up correspondence, and phone calls with the CFTPS staff.

FINDINGS AND RECOMMENDATIONS

We found that the expenditures submitted for reimbursement 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**.

THE CFTPS RESPONSE TO THE AUDIT

The CFTPS generally concur with the accuracy of the report and addressed the following areas:

Accounting Systems/Funding

Accounting:

CFTPS understand the concern about lack of written procedures and inconsistent methods of allocating expenses. CFTPS are addressing both and consider them priorities.

With the loss of the controller position and an accounting assistant in the fall of 2010, CFTPS were limited by the lack of written documentation to verify the procedures used prior to September 2010. Their independent auditors consistently reported that policies and procedures were in line with accepted accounting standards. Since what was in writing was limited, the Executive Director primarily relied on the financial reports that had been prepared and extrapolated the process used to get to these results.

CFTPS are making progress on the development of clear and consistent written agency-wide accounting procedures. CFTPS have help from volunteers knowledgeable in finance and accounting. CFTPS have upgraded their accounting software, which allows them to minimize the manual service tracking and cost calculations. CFTPS are also working with their auditors to finalize the written procedures they developed. This remains a priority for the staff and the board of directors.

Funding:

CFTPS were approved for a grant revision to reallocate grant funding to hire development staff to help them improve their solvency and reverse the cash flow problems CFTPS have experienced over the past 2 years. CFTPS have now hired a Development Manager who will focus on special events and corporate giving.

CFTPS are also reducing their expenses by bringing their Medicare billing in-house and billing electronically. This will reduce the errors and turn-around time, thus improving cash flow. Their start-up date is July 1, 2011. Their next goal is to bill

MediCal electronically. CFTPS are exploring Medicare reimbursement for their independent living skills training when conducted by the occupational therapists on their staff and those who have been trained under this grant. Finally, CFTPS are renegotiating their lease for their Tarzana office at a significantly lower rate.

Personnel:

Director of Clinical Services:

As noted above, CFTPS are revamping their (written) procedures to make sure CFTPS neither overcharge nor undercharge for each position allocating time to the grant.

Director of Rehabilitation Services:

CFTPS also justified the reporting of time much higher than the budgeted percentage was due to the Director of Rehabilitation Services spending extra hours to train the occupational therapists as one of the grant objectives.

Low Vision Optometrists:

CFTPS explained that their basis for billing rates include an informal survey that optometrists in Los Angeles area settings such as Costco, Lenscrafters, etc., earn approximately \$400 per day, with benefits. These optometrists are not skilled in low vision and are hired at this rate right out of school.

Operating:

CFTPS have noted that the vendors' invoices are only to be reimbursed by the grant after they have been paid.

CFTPS appreciate the feedback received from the audit staff and patience with the timing of getting information returned.

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

ACCOUNTING SYSTEMS/FUNDING

1. CFTPS does not have a written Cost Allocation Plan (CAP) that identifies an appropriate, reasonable allocation methodology and allocation base for each item of cost for both direct and indirect expenses. CFTPS indicated that they were not able to complete a CAP due to the lack of staff resources. By not having a CAP 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:

- Allocable cost. A cost is allocable to a particular cost objective, such as a grant, in accordance with the relative benefits received.
- 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.
- 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

The CFTPS shall develop a CAP 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 CAP will be sent to the CFTPS as a guidance tool.

2. The CFTPS allocated some operating expenses to the OIB ARRA Grant for the May 2010 billing period utilizing an inconsistent allocation basis.

The CFTPS explained that the basis of allocation was derived by identifying the number of consumers that were 55 years and older and of those consumers they determined the percentage served under the OIB ARRA grant. For this particular month, 48% of clients were 55 years old and older; and 24% of them were served under the DOR resulting in an 11.5% allocation ceiling for the ARRA grant.

However, we noted a few discrepancies when costs were allocated to DOR at a varied percentage such as:

- Liability and Property Insurance expense was allocated at 7%. The CFTPS explains the allocable percentage was reduced to keep Administration costs down and to not exceed the funds available for the line-item; although we found that the CFTPS has enough funds in their line-item budget.
- Evaluation Consultant expense was allocated at 12.75%. The CFTPS claimed the allocation for this expense was based on the population of consumers receiving evaluation services. Specifically, evaluations were conducted with consumers 19 and over, which was 80% of all consumers. Of the 80% that received evaluations, 60% were 55 and older resulting in a 48% allocation ceiling.

Billing costs based on an allocation method that is inconsistent and undocumented does not ensure a distribution of costs that measures relative benefit provided to the Grant and other funding sources.

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RECOMMENDATION:

We recommend that the CFTPS develop and utilize a CAP that identifies a methodology for allocating direct/indirect expenses that measures the benefits to each funding source and is consistent with federal regulations. CFTPS shall apply the methodology for shared costs consistently to ensure reasonable and allowable amounts are allocated to the appropriate funding source. CFTPS shall also ensure accounting records, including cost accounting records, are supported by source documentation

3. The CFTPS submitted an Independent Audit Report for FY 08/09. A review of the notes to financial statements raised questions about cash flow and solvency, as follows:

- (Note 2, Management's Plans to Address Recurring Losses), the CFTPS has experienced financial losses for the years ended June 30, 2008 and 2009.
- (Note 6, Line of Credit), the CFTPS for year ended June 30, 2009, the outstanding balance for their line of credit was \$219,686 of the \$250,000 credit limit (payable monthly at the prime rate of 3.25%). Per the CFTPS, the full balance is coming due this year and they acknowledge it will be struggle to raise General Fund to cover their debt.

The CFTPS confirmed, as addressed in the independent auditor report, that the CFTPS's losses were sustained primarily because of fee reductions for services paid by government sources and private support has been adversely affected by the broader economic downturn.

It appears that due to cash-flow issues, the CFTPS as has incurred significant debt to pay for ongoing expenses. Cash flow problems make it difficult for the CFTPS to make Grant required purchases in advance before seeking reimbursement from the DOR.

The financial health and fiscal solvency of a non-profit organization is important in the assurances of the provision of services to DOR consumers. An ongoing review of fiscal systems that indicate awareness of the non-profit organization's fiduciary responsibilities, control processes, and safeguards to protect the non-profit organization's assets is essential.

RECOMMENDATION:

We recommend that the CFTPS seek ways to become financially solvent in order to meet necessary financial obligations including those identified in their DOR OIB Grants.

PERSONNEL

1. We found the CFTPS's basis for billing personnel expenses for the following staff may not have been accurately calculated and was not fully supported for the May 2010 billing period as follows:

- Director of Clinical Services
The CFTPS's incorrectly billed DOR for 9hrs rather than the 10hrs reflected on the PARS. As such, CFTPS did not fully recoup all personnel costs chargeable to the OIB ARRA Grant.
- Director of Rehabilitation Services

The CFTPS's billed the grant for 91.75hrs per the cost analysis by service worksheet at the pay rate of \$44.72 for a total of \$4105. In the OIB ARRA Grant, this position is budgeted for 12.6% of a .75 FTE. We were unable to determine why 91.75 hours of 137 hours worked (per the PAR) was billable to the grant, as the amount is much higher than 12.6% of time budgeted.

- Low Vision Optometrists and Low Vision Technicians

The CFTPS's basis for billing costs associated with the optometrists and technicians time providing vision exams/related service could not be fully substantiated to ensure the accuracy in the calculation and billing.

CFTPS explained that service units are identified based on data maintained in a consumer services database and a monetary rate is then applied to the amount of service units. The resulting dollar amount is what gets billed to the OIB ARRA Grant.

The CFTPS indicates that a unit of service equates to 30 minutes. We did not receive support for the conversion of a unit of service to an increment of time, specifically 30 minutes. In addition, for an Optometrist in a supervisory capacity, approximately 15 minutes per unit is allocated.

CFTPS has established a listing that contains the average number of service units associated with a particular type of eye exam.

Further, the monetary rate of \$30, equating to \$60/hr based on the unit conversion, was explained to be based on community standards although CFTPS acknowledged that this rate may or may not reflect the current going rate as they haven't had adequate time and staff resources to conduct current research.

2 CFR230 states the costs of compensation are allowable to the extent that:

- Total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities; and
- Charges to awards whether treated as direct or indirect costs are determined and supported as required in this paragraph.

RECOMMENDATION:

The CFTPS shall ensure personnel costs billed to the OIB ARRA Grant are accurately calculated, supported, and are based on a reasonable documented allocation methodology.

OPERATING

1. The CFTPS invoiced DOR for operating expenses on the OIB ARRA Grant prior to payment being made to the vendor. Specifically:
 - Contract Orientation and Mobility Specialists
The March 2010 reimbursement request was received in May 2010, yet some of the checks for expenses were paid and cleared in June and August 2010.
 - Occupational Therapist Trainees
The May 2010 reimbursement request was received in June 2010, yet some of the checks for expenses were paid and cleared in July and August 2010.
 - Clinical and Educational Supplies
The May 2010 reimbursement request was received in June 2010, yet some of the checks for expenses were paid in July 2010.
Since the Grant is written on a reimbursement basis, the CFTPS is at risk of not being reimbursed for purchases billed to the Grant that are incurred but not paid.

Due to cash flow restrictions, CFTPS has experienced difficulty with paying for goods and services prior to invoicing costs to the DOR OIB ARRA Grant.

The OIB Grant #27659A states that CFTPS shall be reimbursed in arrears.

Recommendation

The CFTPS shall only invoice the OIB ARRA Grant for allowable expenses after payment has been made to vendors to ensure compliance with the Grant requirements.