

Department of Rehabilitation

Audit Services Report

**Older Individuals who are Blind (OIB)
American Recovery and Reinvestment Act (ARRA)
Grant #27674A for the Lions Center for the Blind-Oakland
(Lions-Oakland)**

Date: June 6, 2011

Control Number: 2010A - 117

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 #27674A for Lions Center for the Blind-Oakland (Lions-Oakland). The OIB ARRA Grant budgeted for \$180,000 is effective December 1, 2009 through September 30, 2011.

The mission of the Lions-Oakland is to provide social services to deserving disabled persons residing primarily in Alameda and Contra Costa Counties of California to include providing direct services counseling to sight and hearing impaired individuals and providing independent living training to sight impaired senior citizens in Alameda County.

The purpose of the OIB ARRA Grant is to improve the overall capacity and sustainability for delivering ILS training services to Older Individuals who are Blind and to improve outcomes for qualified blind and visually impaired individuals by:

1. Hiring key program personnel.
2. Updating Online Data Management.
3. Upgrading IT/Communications.
4. Increasing Outreach Services Delivery.

SCOPE

Audit fieldwork was conducted during January-March 2011 and our exit conference was held on April 8, 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 Lions-Oakland 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 LIONS-OAKLAND RESPONSE TO THE AUDIT

Lions-Oakland generally concurs with the findings and recommendations presented in the audit report.

Lions-Oakland remitted a copy of their cost allocation plan that was first presented to their finance committee; unfortunately, it was never approved, thus never implemented. Lions-Oakland is going to move forward with the plan when they approve their budget for 2011-2012.

We would like to thank the Lions-Oakland staff for their assistance with our audit.

ACCOUNTING SYSTEMS/FUNDING

1. Lions-Oakland 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. 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 Lions-Oakland 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 Lions-Oakland as a guidance tool.

2. When reviewing Grant #27674A, we noted a discrepancy between the Grant Budget Narrative and the Grant Budget (Budget and Reimbursement Request), as follows:

Grant #27674A Budget Narrative includes:

- Operating Costs
 - Line-item 1--Online Data Management Consultant
 - Line-item 2—Assistive/Adaptive Technology Consultant
- Equipment Cost
 - Line-item 1—Communications & IT Upgrades

However, the Grant #27674A Budget (Budget and Reimbursement Request) and the Budget Reimbursement Requests submitted by the Lions-Oakland includes:

- Operating Costs
 - Line-item 1—Online Data Management Consultant
 - Line-item 2—Assistive/Adaptive Technology Consultant
 - Line-item 3—IT/Communications Upgrade
- Equipment Cost
 - Line-item 1—Assistive/Adaptive Technology (Specific Items TBD)

When developing and refining the grant language, it appears that the Lions-Oakland did not ensure consistency throughout the grant. As such, the Lions-Oakland is billing for Assistive/Adaptive Technology not depicted in a budget narrative form. Additionally, including the general wording “Specific Items TBD” on the Budget page does not adequately identify what is clearly acceptable for purchase in accordance with the Grant. The Grant budget terminology and narrative need to be consistent in order to ensure proper billing of allowable costs to the appropriate line-item.

RECOMMENDATION:

The Lions-Oakland ensure Grant language is consistent between the Grant Narrative and Grant Budget (Budget and Reimbursement Request) page. Further, the Lions-Oakland shall ensure the DOR is billed for allowable costs that are allocated to the appropriate line item and clearly identified in the Grant.

3. The Lions-Oakland billed expenses to the incorrect Grant line-item for the billing month of June 2010, as follows:

Payroll Expense

Recurring payroll costs paid to Payroll Solutions company for payroll services were billed to the Personnel line-items rather than an Operating expense line-item.

Operating Expense

The Lions-Oakland concurred that expenses were incorrectly billed to the Assistive/Adaptive Technology Consultant line-item rather than the applicable line-item, as follows:

- AT&T (phone and Internet) cost in the amount of \$75.20 should’ve been billed to the IT/Communications Upgrade line-item.
- Comcast (Internet) cost in the amount of \$12.10 should’ve been billed to the IT/Communications Upgrade line-item.
- R&L and Associates Inc. (Compact wide-screen display) cost in the amount of \$490.76 should’ve been billed under Assistive Adaptive Technology Equipment line-item.
- Sterling Adaptives, Inc. (Bill money identifier, etc.) cost in the amount of \$364.92 should’ve been billed under Assistive Adaptive Technology Equipment line-item.

Inappropriate billing to a line-item reduces available funds within the line-item that could be used for expenses suitable for that line-item. Further, it could result in a disallowance of an allowable operating expense.

Grant #27674A Budget Narrative indicates:

- Operating Costs—Assistive Adaptive Technology states that the consultant will establish requirements for A&A procurements, conducts assessments, provide training in use of adaptive equipment, conduct computer training.
- Equipments Costs—Communication and IT Upgrades includes costs associated with phone and Internet access, new server system, and IT/Telephone upgrades.

Grant #27674A Program Narrative B.2.3--Assistive Adaptive Aids and Technology states, Lions-Oakland will procure and maintain assistive adaptive technology for use by consumers and staff. These expenses are identified on the Grant budget as Equipment line-item 1.

RECOMMENDATION:

The Lions-Oakland shall closely monitor expenses and ensure that allowable expenses are billed to the appropriate Grant line-item. The Lions-Oakland should correctly reclassify the expenses and account for the adjustment on a future budget reimbursement request.

4. When billing the OIB ARRA Grant for the Program Assistant/Coordinator and Office Manager's health benefits costs, the Lions-Oakland allocated the cost amongst five staff rather than the two staff who received the benefits. In doing so, it appears as though the Lions-Oakland is billing for Health Benefits costs for staff who did not receive the benefit.

A cost associated with fringe benefits should not be allocated among other employees not receiving the benefit. When costs are incorrectly allocated to employees, there isn't any assurance that expense allocations are correctly applied across various funding sources and general administration.

The Lions-Oakland advised that the Health Benefit costs started being associated with the employee receiving them rather than being allocated to all the OIB employees in September 2010.

RECOMMENDATION:

Because the Lions-Oakland has recognized and corrected the error prior to our review, we recommend that the Lions-Oakland continue to accurately bill for fringe benefit costs effective with the September 2010 billing.

OPERATING

1. The Lions-Oakland incorrectly double-billed DOR for the Assistive/Adaptive Technology expense in the amount of \$942.38. Due to an oversight and error when preparing the billings, the Lions-Oakland was reimbursed twice as the cost was billed to DOR on the May 2010 and again on the June 2010 DR337- Budget and Reimbursement Request.

RECOMMENDATION:

The Lions-Oakland ensure DOR is billed for actual costs incurred and paid. In addition, we recommend the Lions-Oakland submit a supplemental billing to adjust for the overbilling to the Assistive/Adaptive Technology line-item.

EQUIPMENT

1. The Lions-Oakland did not have prior authorization for equipment purchases exceeding \$1,000 for the following items:
 - Guide Software from Sterling Adaptives in the amount of \$1,592.47.
 - JAWS software program and licensing from RL and Associates in the amount of \$7,322.57.

The Lions-Oakland claims they were not aware of the policy and advised that they did not have the Standard Grant Provisions in their Grant package which would have contained requirements for equipment purchases.

Without prior authorization, the Lions-Oakland could possibly make purchases not applicable/not allowable under the Grant, resulting in non-reimbursement.

Grant #27674A Standard Grant Provisions (II. Conditions of Grant Administration A.6.) requires that Equipment exceeding \$1,000 must have prior authorization.

RECOMMENDATION:

The Lions-Oakland shall ensure prior authorization for each equipment purchase exceeding \$1,000, as required by the Grant, in order to ensure that the purchase is necessary, allowable, and reimbursable.