

Department of Rehabilitation

Audit Services Report

**Older Individuals who are Blind (OIB)
American Recovery and Reinvestment Act (ARRA)
Grant #27668A for Lions Center for the Visually Impaired
(Lions-Pittsburg)**

Date: June 6, 2011

Control Number: 2010A - 108

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 #27668A for Lions Center for the Visually Impaired (Lions-Pittsburg). The OIB ARRA Grant budgeted for \$500,000 is effective December 1, 2009 through September 30, 2011.

The Lions-Pittsburg programs and services are for blind and visually impaired adults throughout Contra Costa County, and provides three categories of services; the Independent Living Services, Activity Classes, and Support Services. These services are geared toward teaching clients the skills needed to maintain their independence, while adjusting to vision loss.

The purpose of the OIB ARRA Grant is to stimulate independent living, empowerment, and full inclusion of older individuals who are blind. The Lions-Pittsburg Grant Objectives include:

1. Provide free vision screening for at least 1,600 (800/year) under-served, low-income or ethnic minority persons age 55 or older in Region 2—Oakland Area (Contra Costa and Alameda Counties).
2. Address the digital divide for the visually impaired community in Contra Costa County.
3. Build the organizational infrastructure through better IT equipment and systems, an integrated program outcome evaluation system, and additional help with fundraising planning and implementation.
4. Develop the professional competency of staff through training in cultural issues, program evaluation methods and technology.
5. Design outreach material to market the Center's expanded services to the visually impaired community.
6. Reach more OIB consumers through the Senior Independent Living Program.

SCOPE

Audit fieldwork was conducted during January-March 2011 and our exit conference was held on April 25, 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-Pittsburg 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-PITTSBURG RESPONSE TO THE AUDIT

The Lions-Pittsburg generally concur with the accuracy of the report. It should be noted, however, that while equipment purchases may have occurred without specific prior authorization, all of the purchases were made in compliance with budget line items approved in our original budget. Additionally, there seems to be no standard or method currently in place for a sub-recipient to communicate equipment purchases over \$1,000. It appears that the only control regarding purchases occurs in the budget, which has been submitted, approved and becomes a part of the grant agreement. Because all of our equipment purchases were for supplies already approved, we didn't believe it to be necessary to submit a redundant request.

It has been our experience that the Department of Rehabilitation has been thorough, and very helpful with facilitating this grant. I want to thank you for your time and assistance in this process.

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

ACCOUNTING SYSTEMS/FUNDING

1. Even though the Lions-Pittsburg provided a Cost Allocation Plan, the plan does not adequately describe a basis for consistently allocating allowable direct and indirect costs.

The Lions-Pittsburg’s cost allocation plan cites, “The Executive Director is solely responsible for approving and allocating all direct and shared costs, which are allocated to the appropriate grantors when invoices are approved for payment.” However, no methodology for determining the reasonableness and allocability of specific costs to programs/funding sources is identified. Billing costs based on an allocation method that is unsupported and undocumented does not ensure a distribution of costs that measures relative benefit provided to the Grant and other funding sources.

Our conversation with the Executive Director confirms that direct expenses for OIB consumers are chargeable to the two OIB programs, Title VII OIB and ARRA OIB with the majority of the costs being charged to Title VII OIB and the remaining balance to OIB ARRA. Although the OIB ARRA Grant has an Administrative Cost line-item, no cost has been billed for the period reviewed.

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-Pittsburg 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.

PERSONNEL

1. Although Personnel Activity Reports (PARs) were prepared as required by federal regulations, the PARs did not adequately support the staff salaries billed to DOR.

The monthly percentage of time billed to the grant is based on budgeted percent rather than actual percent of time. A review of the PAR for August 2010 indicated that the Early Detection Manager was billed at the budgeted percent of 60% however, the PAR supported 76% time worked on the grant in August 2010.

The Lions-Pittsburg referred us to their organization chart as their basis for percent of time billed to DOR. Also, the Lions-Pittsburg felt they were limited to the amount in the line-item budget and did not want to bill in excess of the line-item budget. Capping costs billed may not allow for the recouping of expended personnel costs from the appropriate funding source.

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 personnel activity reports.

RECOMMENDATION:

The Lions-Pittsburg shall bill DOR for actual time spent on Grant activities as supported by the employees PAR. In addition, the Lions-Pittsburg shall monitor the Grant budget and available funds to determine if monies can be utilized from other line-items within the same Grant budget category.

2. The Lions-Pittsburg incorrectly invoiced the OIB ARRA Grant for benefit expenses on the Payroll Taxes and Benefits line-item.

When billing for payroll tax costs, the Lions-Pittsburg billed for monies withheld from the employee's pay in error. Specifically:

- California/Federal Tax withholding and California Disability Insurance withholding for the Early Detection Manager resulting in an overbilling of \$321.87 for August 2010 billing.
- California Disability Insurance withholding for the Early Detection Specialist resulting in an overbilling of \$13.35 for August 2010 billing.

The Lions-Pittsburg incurred and paid Health Benefits costs on a monthly basis for employees. When calculating the amount billable to DOR, the Lions-Pittsburg factored in the costs for Health Benefits twice rather once. For the month of August 2010, this resulted in an overbilling total of \$961. The Lions-Pittsburg's indicated

they were unaware that their payroll cost worksheet reflects the wrong calculation causing the monthly Health Benefit premium to be added-in twice.

Since the Lions-Pittsburg overbilled for the Payroll Taxes and Benefits, approximately \$1,306 each month, the Lions-Pittsburg fully expended their Payroll Taxes and Benefits line-item budget.

2 CFR 215.21 Standards for financial management systems, paragraph (3) states that effective control over and accountability for all funds shall be maintained.

2 CFR 230 states that costs of compensation are allowable to the extent compensation to the individual is reasonable for the services rendered.

OIB ARRA Grant #27668A, Standard Grant Provisions, requires that all expenditures be reimbursed in arrears.

RECOMMENDATION:

The Lions-Pittsburg ensure personnel costs billed to the grant are allowable, accurate and based on actual expenses incurred and paid. In addition, the Lions-Pittsburg should prepare an adjustment billing to reconcile the overbilled amount.

EQUIPMENT

1. The Lions-Pittsburg did not have appropriate prior authorization from DOR specifically for the purchase of (12) Deskmate Duo 19 CCTV's from Clarity each costing \$2,495; a total of \$29,940.

Lions-Pittsburg responded prior approval has never been required, either in the grant or in discussions with DOR staff even though it is stated in the Standard Grant Provisions in Section 2.A.6 (Conditions of Grant).

If the Lions-Pittsburg does not obtain prior authorization for the specific item purchased in excess of \$1,000, the Lions-Pittsburg could purchase equipment not applicable/not allowable under the Grant, resulting in non-reimbursement.

Standard Grant #27669A Provisions (II. Conditions of Grant Admin A. 6) Equipment exceeding \$1,000 must have prior authorization.

RECOMMENDATION:

The Lions-Pittsburg shall ensure prior authorization for each equipment purchase exceeding \$1000, as required by the grant, in order to ensure that the purchase is necessary, allowable, and reimbursable.