

Department of Rehabilitation

Audit Services Report

**Older Individuals who are Blind (OIB)
American Recovery and Reinvestment Act (ARRA)
Grant #27681A for Blindness Support Services (BSS).**

Date: June 1, 2011

Control Number: 2010A - 112

**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 #27681A for the Blindness Support Services (BSS). The OIB ARRA Grant budgeted for \$100,000 is effective December 1, 2009 through September 30, 2011.

BSS was incorporated in May 1992, to provide innovative approaches to achieving independence and self-reliance for blind and visually impaired residents of Riverside, San Bernardino, Orange, San Diego and Los Angeles Counties in Southern California. Since incorporation, BSS has provided services to many blind and visually impaired consumers, their families and friends from local and surrounding communities.

The purpose of the OIB ARRA Grant is to move to a new level of service, providing access to an even greater number of individuals. BSS seeks to contract with a Development Specialist to implement a comprehensive program for identifying, nurturing, securing, and stewarding charitable contributions from individuals, corporations, and foundations.

BSS Goals and Objectives under the Grant include:

1. Contract with a Development Specialist by January 1, 2010.
2. Establish an integrated development program plan, including annual fund and major gifts through individuals, corporations, and foundations, direct mail, and special events by April 2010.
3. Work with development software in 2010/2011 to maximize all development activities.
4. Recruit in 21 months two new board members with capacity and interest for major gifts and willingness to help fund raise.
5. Development Specialist will participate fully in grant writing workshops, grant research activities, and submit at least 4 new grants for BSS within the grant term.
6. By the end of grant term (September 30, 2011) raise at least \$50,000 dollars.

SCOPE

Audit fieldwork was conducted during January - March 2011 and our exit conference was held on April 26, 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 identified.

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.

FINDINGS AND RECOMMENDATIONS

We found that the expenditures submitted for reimbursement incurred 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**.

BSS'S RESPONSE TO THE AUDIT

BSS has and will be making changes to our operating and accounting procedures as follows:

1. An Accounting Procedures Manual will be drafted and presented to the Board of Directors for review and adoption. This will include a Cost allocation Plan.

Otherwise, we have no other comments related to the report.

We would like to thank Blindness Support Services staff for their assistance with our audit.

ACCOUNTING SYSTEMS/FUNDING

1. BSS does not have a written cost allocation plan that identifies an appropriate, reasonable allocation methodology and allocation base for each item of cost for both direct and indirect expenses. BSS indicated that they were not aware that they were required to have a cost allocation plan. By not having a cost allocation plan 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:

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

BSS shall develop a written cost allocation plan 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 cost allocation plan was sent to BSS for guidance.

2. BSS does not maintain a current Accounting Procedures Manual that provides their policies and procedures for their accounting financial systems. BSS was not aware that they were required to have their accounting policies and procedures written into a manual. Staff follows accounting processes that they know are in place in the organization. The CPA states she follows the procedures in 'the yellow book' which is the Government Auditing Standards.

BSS is not in compliance with federal regulations and the lack of an Accounting Procedures Manual causes them to be more susceptible to inaccuracies. Nonprofit organizations are accountable for their use of the money and other

assets acquired from public and private support and must protect those assets from misuse and misappropriation.

2 CFR 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.

In addition, the recipient shall provide effective control over and accountability for all funds, property, and other assets. Recipient's shall adequately safeguard all assets and assure they are used solely for authorized purposes.

RECOMMENDATION

BSS shall develop an accounting procedures manual that documents the processes of their financial management system.

3. BSS submitted an Independent Audit Report for FY 08/09. In review of the notes to financial statements we identified a staff loan to BSS for \$75,000. This raised questions about their cash flow and solvency. BSS explained that they were financially unstable for about four months and borrowed money from a staff person due to the state budget impasse. BSS advised that the loan was paid back. BSS is currently financially stable, but should the State of California have a budget impasse again BSS would experience the same situation.

The financial health and fiscal solvency of a non-profit organization is important in the assurances of the provision of services to OIB consumers. The 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

BSS shall seek ways to remain financially solvent in order to meet financial obligations including those identified in their grants.

GRANT PROVISION COMPLIANCE

1. BSS did not have certifications for four of their staff verifying completion of the DOR ARRA Fraud Training required by the grant. BSS stated that all employees involved were trained, but not aware that they were required to submit their certifications back to program.

Standard Grant #27662A, ARRA Agreements-Subvention, Supplemental terms and conditions for contracts using ARRA funds 11. Fraud Training: states the

Contractor, its employees or any individuals performing activities related to this contract shall certify completion of DOR ARRA Fraud Training no later than 30 days upon contract award.

RECOMMENDATION

BSS shall ensure grant requirements are met. Following the auditor's request all certifications were submitted for staff involved with the DOR OIB ARRA Grant.

PERSONNEL EXPENSE/TIME REPORTING

1. BSS did not bill properly for personnel costs associated with the office assistant position. The payroll register indicated the SUI at \$7.20, but their worksheet posted SUI at \$40.53 which was the total for FICA. Personnel Costs billed to the DR339 were calculated inaccurately due to an error on the spreadsheet. This was probably a keying error and not a common practice. This error resulted in a minor overbilling but no financial adjustment will be made as the amount is considered immaterial.

Standard Grant #27681A, Conditions of Grant Administration, A – General Conditions – (4) Appropriate expenditures shall be made by the grantee in accordance with the provisions of this grant for staff salaries and benefits, for authorized operating expenses, and for the acquisition of equipment.

RECOMMENDATION

BSS shall correctly calculate personnel expenses billed to the OIB ARRA Grant and double check their calculations for accuracy prior to invoicing DOR.

OPERATING EXPENSE

1. Using OIB ARRA funds, BSS contracted with two Development Specialists. When paying for the services, BSS does not receive an invoice or report of progress identifying services delivered. Instead BSS pays a monthly cost stipulated in the contract.

Without the contractor providing a monthly invoice or progress report detailing services provided, we questioned whether BSS is just paying for a contract obligation without confirmation of service delivery/accomplishments. There is no assurance that the Developmental Specialists are meeting the said requirements and the deliverables without supporting documentation. Subsequent to our audit exit teleconference, BSS submitted duty statements and a summary update of their activities to date. It appears the contractors are providing services in accordance with contract terms and BSS's expectations.

Standard Grant ARRA Stimulus Package, Budget Narrative Operating Expenses states Professional and Consultant services: Refers to the cost of contracting with a Development Specialist to implement the Capacity Building Initiative, and to cover 5% of the cost associated with accounting, financial audit and payroll services.

RECOMMENDATION

BSS should request that the contractors remit documentation in support of services provided such as an invoice/progress report. It is essential that BSS obtain support and assurance that contract terms and deliverables are being met prior to making payment to the contractor.