



Joint Program and Fiscal Review Report Resources for Independence Central Valley

Site Visit Date: September 9 - 11, 2014

Report Date: November 4, 2014

DOR Joint Review Team:

Lead

Rudy Maynard, Community Resource Specialist, CRDS

Program Review Team

Ann Johnson, Program Manager, ILATS

Paul DeMange, Program Resources Specialist, ILATS

Fiscal Review Team

Kerry Gantt, Senior Management Auditor, Audit Services

Russell Nakata, Auditor, Audit Services

Kelly Montelongo, Auditor, Audit Services

Department of Rehabilitation
Joint Program and Fiscal Review of Resources for Independence Central Valley

Introduction

The Department of Rehabilitation (DOR) has completed a joint program and fiscal review of the Independent Living (IL) AB204 and Title VIIB grants; and a review of the Vocational Rehabilitation (VR) Fees for Services (FFS) with Resources for Independence Central Valley (RICV) in Fresno.

RICV's mission is encouraging people with disabilities to be in control of their lives and to live more independently through a diverse range of choices and opportunities.

The joint program and fiscal review was a collaborative effort between DOR's Community Resources Division, Independent Living and Assistive Technology Section, and Audit Services. The fiscal review focused on funding for the 2013/2014 fiscal years as follows:

Fiscal Year	Funding Type	Grant Budget	Payments to RICV	Services
10/2013 – 9/2014	AB204	\$543,221	\$381,541	Independent living and assistive technology services
7/2013 - 9/2013	Title VIIB	\$40,000	\$18,392	Provide training to Executive Directors of ILC's for peer review and monitoring
10/2013 - 6/2014	Title VIIB	\$50,000	\$49,421	RICV community organizing projects to sustain Disability Advocacy Teams
7/2013 - 6/2014	Fee for Service	N/A	\$327,540	Employment Services (Intake, Employment Preparation, Job Development and Job Placement and Retention); ESA and PVSA
Total Budget/ Payments by DOR:		\$633,221	\$776,894	

Review Objectives and Methodology

During the site visit, the review team observed operations in the RICV Fresno, Visalia, and Merced offices. Additionally, the team reviewed consumer, administrative, and fiscal records; interviewed RICV board members, management, program and administrative staff; and conducted limited testing of the accounting system and internal controls as they relate to DOR funding. The review team evaluated the information obtained through these activities to determine whether program and fiscal processes and records were in compliance with federal and state requirements.

Fiscal Review Observations

1. Although RICV had a federally approved Cost Allocation Plan (CAP), the CAP lacked details on allocation methodologies for many items of cost. Further, for the items of cost that the CAP describes, the allocation methodology is not identified e.g. Travel - "travel costs may be charged as either direct or indirect costs depending on the nature of the trip. Supplies and Materials – ".....Supplies and material used by staff who is engaged in indirect activities will be charged on an indirect basis."

The observation was discussed with the Finance Director who explained that the CAP has not been revised since 2006.

The purpose of a CAP is to summarize, in writing, the methods and procedures that an organization will use to allocate costs to various programs/funding sources. The CAP should specify the methodology by which the items of cost are distributed to the benefiting programs/funding sources. Indirect costs should be allocated across relevant funding sources based on the relative benefit received.

Allocation methodology examples may include:

- Number of transactions processed
- Square footage occupied
- Salaries and wages

Federal Regulation 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

RICV shall develop written procedures for determining the allocability and allowability of direct and indirect items of cost in accordance with applicable federal regulations. RICV should consider developing an updated CAP that identifies a methodology for allocating direct/indirect expenses that measures the relative benefits to each funding source. A sample CAP will be provided as a guidance tool.

2. RICV did not allocate and bill grant expenses consistent with their CAP and/or federal requirements as follows:
 - a. RICV billed IL staff salary and benefit costs on the Budget and Reimbursement Request (DR 339) using budgeted percentages as identified in the grant rather than actual time.

RICV staff complete timesheets semi-monthly capturing time worked under the "Time In" and "Time Out" columns as well as total hours worked per day and for the pay period. The timesheets do not specifically show hours worked and the activity related to each funding source including AB204, AT, and Title VIIB.

RICV's CAP indicates that some of RICV employees direct charge their salary cost since their work is specifically identifiable to specific grants, contracts, or other activities of the organization such as fund raising. The CAP also stipulates that the charges are supported by auditable labor distribution reports (timesheets) which reflect the actual activities of employees.

- b. RICV explained that operating expenses were allocated and billed based on budget, judgment, reasonableness, and available funding source dollars. The rationale and methodology of the cost allocations were most often not identified in the CAP (as indicated above) and while the accounting records contained an allocation worksheet reflecting the allocation percentages, they did not identify the rationale or methodology.

The variety of methods to determine the allocation percentage may result in a distribution of costs that aren't in proportion to the relative benefit received. Some examples of costs invoiced to DOR during the January and March 2014 sampling periods were as follows:

- The National Council for Independent Living membership dues of \$525 for 15 RICV staff (\$35 each) were billed to AB204 even though three staff of the staff members were not funded by the AB204 grant (\$105 worth).

- The rent billed for the Merced office space occupied by staff funded by Title VIIC, AB204, and FFS was allocated at 50% to the Title VIIC expansion grant compared to 35% to AB204 and 15% to FFS. The Finance Director explained that the grant allowed for services north of Madera County, so it would be appropriate to charge a higher percentage to the Title VIIC grant.
- The rent for mini-storage utilized to store items related to services provided through a variety of programs at the Fresno office were allocated at 55% to AB204 compared to 15% to Title VIIC, 9% AT, 9% to FFS. The Finance Director explained that IL core services are the primary service at the Fresno office so it would be appropriate to charge a higher percentage to the AB204 grant.
- The outside professional services costs were allocated to Title VIIC, AB204, AT, and FFS per the accounts payable allocation worksheet; however, the general ledger showed that the costs purportedly allocated to Title VIIC were in fact allocated and billed to AB204 instead. The Finance Director couldn't recall, but explained he may have already submitted the invoice for Title VIIC for that month or there was no available funding in Title VIIC.

The observation was discussed with the Finance Director who explained that his predecessor trained him in determining allocation percentages and preparing the DR 337. He reiterated that allocations are based on shared core services between the Title VIIC and AB204 grants, as well as a consideration of funding sources having available dollars to pick up a higher allocation percentage.

- Federal Regulation 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.

Federal Regulation 2 CFR Part 230 establishes the principles for determining the costs of grants, contracts, and other agreements with the federal government. It defines an allocable cost as a cost that is allocable to a particular cost objective, such as a grant, in accordance with the relative benefits received.

Recommendation

RICV shall ensure employees funded by multiple funding sources record their actual time spent on grant related activities and that salary and benefit costs for IL grant activities are billed based on actual time rather than budget.

A slight revision to the existing timesheets could be made to reflect the actual percentage of time worked on each funding source.

RICV shall consistently document the rationale and allocation methodology used to support the billing of expenses to the grant in accordance with the relative benefit received.

RICV should consider revising the allocation worksheets used to accurately reflect the amount of outside professional expenses allocated to AB204 to provide an adequate audit trail.

3. RICV staff funded by the AB204, AT, and the Title VII B grants do not prepare Personal Activity Reports (PARS) in compliance with federal regulations.

RICV staff complete PARS or timesheets semi-monthly that coincide with each pay period and are signed by the employee and supervisor. However, the timesheets are primarily for payroll purposes capturing time worked under the "Time In" and "Time Out" columns as well as total hours worked per day and for the pay period. The timesheets do not reflect the actual activity related to each funding source to include AB204, AT, and Title VII B.

Federal regulation 2 CFR Part 230, (formerly OMB A-122) requires that PARS 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.
- 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.

Federal regulation, 2 CFR Part 200.430, effective December 26, 2014, requires charges to Federal awards for salaries and wages must be based on records (timesheets) that accurately reflect the work performed. These records shall:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated

- Be incorporated into the official records of the non-federal entity
- Reasonably reflect the total activity for which the employee is compensated by the non-federal entity, not exceeding 100% of compensated activities
- Encompass both federally assisted and all other activities compensated by the non-federal entity
- Comply with the established accounting policies and practices of the non-federal entity
- Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal; an indirect cost activity and a direct cost activity

Recommendation

RICV ensure that personnel expenses billed to the grant are allowable and supported by adequate timekeeping records in accordance with federal regulations, currently 2 CFR Part 230 and 2 CFR Part 200 as of December 26, 2014. RICV should consider utilizing the current timesheets with some slight modifications to ensure compliance.

4. RICV incorrectly billed \$10,057 worth of travel expenses related to peer review activities, to the Title VIIB contract services line item instead of the travel/conference line item. In addition, RICV posted the travel expenses in the general ledger to the 7170 contract services category – peer review expenses instead of the 6085 conference & travel fees category. None of the expenses billed to the contract services line item were stipends as the Title VIIB grant budget narrative requires, instead the expenses were for lodging, meals, and transportation.

The Finance Director explained that the Travel/Conference budget was intended for travel/conference expenses incurred by RICV staff. Since the majority of attendees at this particular peer review conference were not RICV employees, it was determined to post and bill their travel expenses to contract services.

Title VIIB Grant #29012 budget narrative for the contract services line item stipulates it covers payment of stipends for peer reviewers. The travel/conference line item stipulates that budget funds are needed to cover all expenses for both conducting peer reviews at ILC sites as well as conducting a statewide conference. It will cover food, lodging, travel, and conference facility expenses at \$30,768. RICV requested a Budget Revision effective September 1, 2013, to revise the budgets for the travel/conference line item from \$30,768 to \$29,168

and for the contract services line item from \$1,200 to \$2,800, but the revision did not revise the line item description within the budget narrative.

Recommendation

RICV ensure that all operating expenses are billed to the correct line item in accordance with the grant budget narrative requirements. In addition, RICV should post travel expenses to the travel expenses general ledger account to coincide with the applicable grant line item. Further, RICV could separate Non RICV travel expenses from RICV staff travel expenses by adding a sub account under the 6085 conference & travel fees category, rather than incorrectly posting it to the 7170 contract services category.

5. RICV billed DOR for employment services prior to completion of the service. Specifically, RICV billed for retention services 60 days after the consumer's employment start date rather than 90 days. The bookkeeper at RICV explained that it was an oversight by both herself and the Job Developer.

The Community Rehabilitation Program Guide to Certification and Vendorization (CRD Guide), March 1, 2009, requires payment at conclusion of retention activities when the consumer has completed 90 days on the job and demonstrates an ability to meet the employer's standards and job performance expectations.

Recommendation

RICV ensure Employment Services are delivered and invoiced to DOR in compliance with the requirements of the CRD Guide.

6. RICV has a system of internal controls in place, but can improve upon a few existing controls as follows:
 - The Executive Director should consider conducting a more in-depth review of the DR337 and DR339 prior to signing and submitting them to DOR. Although he relies upon the finance director to accurately prepare the invoices, a more thorough review by the Executive Director will provide the opportunity to minimize risk prior to certifying that grant invoices are accurate and expenses are appropriate, reasonable, and necessary.

The DR337 and DR339 Claimant's Signature section stipulates "I certify 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 a more thorough review of the DR337 and DR339 prior to signing to ensure expenses are appropriate, reasonable, and necessary in accordance with federal cost principles and terms of the grant.

- The Purchasing Policy and Procedures require that all purchases be reported to the Executive Director and that he approve purchases above certain dollar thresholds via the Purchase Request Form. The Executive Director explained that he approves the Purchase Request Form prior to purchase so he is aware of what was purchased. However, there is no post-purchase reconciliation procedure in place designed to minimize risk; allow an opportunity to identify and look into differences, and to take corrective action when necessary prior to the invoice approval and grant billing process.

A system of good internal controls includes a policy and process for post-purchase approval to ensure the items/services received align with the items/services pre-approved as well as assurance that the items/services are allowable, reasonable, and necessary.

Recommendation

RICV should develop a policy and associated procedures for post-purchase approval to ensure expenses are appropriate, reasonable, and necessary. This policy should include review of grant billing related accounts payable for a “three way match” which consists of comparison of the purchase invoice to the approved PO and receiving report to ensure goods and services billed coincide with those approved for purchase and actually received.