

Schedule of Federal Audit Findings and Questioned Costs

Area Agency on Aging and Disabilities of Southwest Washington

Clark County

January 1, 2013 through December 31, 2013

1. The Agency did not comply with allowable cost principles for its Aging Cluster programs.

CFDA Number and Title:	93.044 Special Programs for the Aging, Title III-Part B, Grants for Supportive Services and Senior Centers 93.045 Special Programs for the Aging, Title III-Part C, Nutrition Services 93.053 Nutrition Services Incentive Program
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Social and Health Services
Pass-through Award/Contract Number:	1369-64734-01
Known Questioned Cost Amount:	\$2,140
Likely Questioned Cost Amount:	\$11,982

Background

For the year ended December 31, 2013, the District spent \$1,456,101 in its federal aging program, which includes a total of \$67,722 in direct costs associated with paid time-off. The objective of the program is to provide services to older individuals, supportive services including transportation, in-home services and caregiver support.

Description of Condition

Program guidelines allow entities to charge the costs of employee leave to the federal program. These costs must be equitably charged between individual programs. We found the Agency did not equitably allocate the costs of paid leave for certain employees. In some instances the Agency charged 100% of leave costs to the grant; although not all employee time was spent working in the program.

Cause of Condition

The Agency was not aware that the method used would result in an inequitable allocation of paid leave costs.

Effect of Condition and Questioned Costs

The Agency used grant funds to pay unallowable expenses resulting in actual questioned costs of \$2,140, which could result in the Agency having to repay funding to the grantor. We estimate additional likely questioned costs of \$11,982.

Federal regulations require us to report known and projected questioned costs when likely questioned costs are greater than \$10,000 for each type of compliance requirement. We question costs when we find an agency has not complied with grant regulations and/or when it does not have adequate documentation to support expenditures.

Recommendation

We recommend the Agency establish internal controls to ensure paid leave costs are equitably allocated between programs. We further recommend the Agency consult with the Department of Social and Health Services concerning the potential repayment of questioned costs.

Agency's Response

AAAD Southwest acknowledges that our payroll systems automatically distributed dollars to the wrong sub-grant portion of the overall Older Americans Act grant. The error we made was a result of making an assumption that the error in allocation from vacation pay was an immaterial amount, which we still feel is true, but we do acknowledge that even though we feel it was immaterial it did generate an error that according to Federal law must be reported. The total dollar amount of the error resulted in an allocation error of less than one percent of the total Older Americans Act budget to the wrong sub-grant.

We are pleased to note that the distributed cost allocation for all of the funds was charged to the correct overall Federal grant source and that no agency funds were or are subject to an improper use of funds question. When we were notified of this error during the audit, we immediately changed our practice so that effective July 1, 2014 we now allocate all costs including vacation and other non-salary wage payments in the correct process.

Auditor's Remarks

We appreciate the Agency's commitment to resolve this finding and thank the Agency for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), states in part:

Appendix B, Section 8(d) Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Section .510:

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on

the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.