Audit Report

Action Toward Independence, Inc.

For the Period

October 1, 1997 through September 30, 1998

RF-1098-2

March 16, 1999

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234

NEW YORK

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March 16, 1999

Ms. Nancy Horton
Co-Executive Director
Action Toward Independence, Inc.
2927 Route 6
Slate Hill, New York 10973

Dear Ms. Horton:

The following is our final audit report (RF-1098-2) on Action Toward Independence, Inc. (ATI) for the period October 1, 1997 through September 30, 1998. The audit was conducted pursuant to Section 248.2(f) of the Regulations of the Commissioner of Education in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

As stated in the body of the report, ATI's financial viability is at substantial risk. To address that risk, ATI needs to expedite its development of a plan with a short-term and a long-term strategy for improving its financial condition.

Ninety days from the issuance of this report, ATI officials will be asked to submit a report on actions taken as a result of this audit.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Daniel Tworek

Enclosure
cc: R. Cate
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Executive Summary

Background and Scope of the Audit

Action Toward Independence, Inc. (ATI) is an independent living center that provides services to individuals with disabilities. ATI spent about $586,000 during the 1997 fiscal year in carrying out its activities which were funded in part by $254,000 in grants from VESID. For the same period ATI's expenses exceeded revenue by about $130,000 and its net assets were negative $2,279, i.e., liabilities exceeded assets by this amount. VESID was aware ATI was experiencing financial difficulties and requested that the Office of Audit Services complete this review.

The purpose of our review was to determine the current financial condition of ATI, and to assess the adequacy of ATI's plan to address its financial condition. We reviewed practices, records and documentation supporting ATI's financial condition; interviewed ATI management and staff; and reviewed the financial statements audited by a CPA. The review concentrated on ATI's financial condition and did not assess ATI's overall operations or the adequacy of controls.

Audit Results

The review determined ATI's financial viability is at substantial risk, although we could not precisely portray its financial condition. A summary of our findings follows.

- The review could not determine the current financial condition of ATI due to the inadequacy of the accounting records. The accounting system does not accurately reflect the account balances for assets, liabilities, revenue and expenses or the overall financial condition of ATI.

- The review found ATI's plan addresses the reduction of expenses and identifies possible sources of revenue. However, the plan does not provide specific steps to address ATI's financial viability.

- The review also reported on certain matters regarding the Board of Directors, monitoring program revenues and expenses, management and general expenses, and account balances.

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Audit Results

Introduction

We have performed a review of the financial condition of Action Toward Independence, Inc. (ATI). This report represents the results of the review.

ATI is an independent living center that provides services to individuals with disabilities. Its programs include advocacy, information and referral, transportation, family support services, peer counseling, equipment loan and repair, recreation, and loans of up to $250 to individuals with disabilities. ATI spent about $586,000 during the 1997 fiscal year in carrying out its activities. These activities were funded in part by $254,000 in grants from VESID. For the same period, ATI's expenses exceeded revenue by about $130,000 and its net assets were negative $2,279, i.e., liabilities exceeded assets by this amount. VESID was aware ATI was experiencing financial difficulties and requested that the Office of Audit Services complete this review.

The purpose of our review was to determine the current financial condition of ATI, and to assess the adequacy of ATI's plan to address its financial condition. We reviewed practices, records and documentation supporting ATI's financial condition; interviewed ATI management and staff; and reviewed the financial statements audited by a CPA. The review concentrated on ATI's financial condition and did not assess ATI's overall operations or the adequacy of controls.

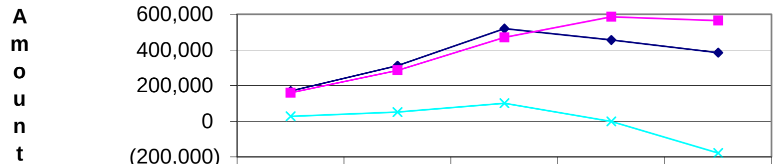
The review could not determine the current financial condition of ATI due to the inadequacy of the accounting records. The accounting system does not accurately reflect the account balances for assets, liabilities, revenue and expenses or the overall financial condition of ATI. In regard to ATI's plan, the review found it addresses the reduction of expenses and identifies possible sources of revenue. However, the plan does not provide specific steps to address ATI's financial viability. The review also reported on certain matters regarding the board of directors, monitoring program revenues and expenses, management and general expenses, and account balances.

ATI's comments about the findings and conclusions were considered in preparing this report and changes were made to the report. Their comments to the draft report are included as Appendix B.

Financial Condition

As of June 30, 1996, ATI was financially viable and had net assets of $101,213. After that period, however, ATI continued to expand its programs and incurred expenses in excess of revenues. As shown in the following graph, expenses continued to exceed revenue and net assets decreased to below zero.

Action Towards Independence, Inc.
Revenues, Expenses and Net Assets
6/30/94 - 6/30/98



	1994	1995	1996	1997	1998*
Total Revenues	168,195	310,759	518,609	456,437	384,082
Total Expenses	159,465	285,762	468,877	586,015	563,441
Net Assets	26,486	51,483	101,213	(2,279)	(179,359)

Source:
-1994 to 1997 data is based on the agency's CPA Financial Statements. The financial statements for 6/30/98 are not yet completed. We used the 6 month 12/31/97 data from the agency's IRS Form 990 to estimate the 12 month data as of 6/30/98.

ATI changed its fiscal year to a calendar year basis starting with 1997. We used ATI's audited financial statements for the period July 1, 1997 through December 31, 1997 to estimate the amounts shown on the graph as of June 30, 1998. We attempted to review the accounting records and determine ATI's current financial condition. However, we were not able to determine the financial condition because the accounting records were not reliable. Some specific examples of the deficiencies follow:

- Individual account balances were not accurate. For example, the accounting records showed ATI had a cash balance of $71,403 on November 25, 1998, but the Co-Executive Director stated the real balance was only $56,569 based on the bank's records and outstanding checks. The difference was due to multiple errors in the accounting system.

- Not all transactions were properly processed. For example, transactions were processed that resulted in a negative balance of $35,633 in the Miscellaneous Expense account for the 1998 calendar year. The Co-Executive Director researched this amount and stated the expenses are duplicated elsewhere and the correct amount is zero. In another case, transactions were processed that resulted in a negative balance of $6,176 in the Accounts Payable account. ATI management explained that this was a result of paying insurance in advance. However, rather than showing this as a negative liability, it should have been recorded as a prepaid expense (an asset account).

- The accounting reports were not accurate. For example, the balance sheet for the 1998 calendar year showed accounts receivable of $77,152. However, the amount was made up individual receivables including four accounts with negative balances. One of those accounts was for the Parenting Program that had a negative accounts receivable balance of $5,594. ATI management stated that the negative amount for the Parenting Program account was incorrect and the accounts receivable was actually a positive $14,160. Also, ATI management stated some of the accounts receivable listed as outstanding were in fact already collected.

ATI management agreed with us that the accounting records and reports are not accurate and cannot be relied upon. They also stated that ATI's prior bookkeeper did not understand how the accounting software package worked and did not accurately process the accounting transactions. To determine the extent of the problem, we tried to trace reported amounts to the accounting records and noted significant differences. For example, ATI reported a negative charge in net assets of $106,248 for the period July 1 through December 31, 1997, but the accounting records showed a negative balance of only $1,710. Similarly, ATI reported revenues of $192,041 for the same period, but the accounting records showed revenues of $297,620.

Due to our limited resources, the extent of the accounting errors, and the fact that an independent CPA will audit the accounting information, we did not attempt to determine current actual account balances or financial condition. It is our recommendation that ATI request the assistance of the CPA in correcting the errors in its accounting system and that ATI have the audit of the 1998 financial statements completed as soon as possible.

While we cannot quantify ATI's current financial condition, we can estimate with some certainty that liabilities exceed assets by almost $180,000. Our estimate is based on the reported negative net assets of $108,527 as December 31, 1997 and the failure of ATI to reduce expenses or find any significant new sources of revenue as of April 30, 1998.

ATI borrowed money to finance its operation and as December 31, 1997 had outstanding loans of $120,000. As of December 31, 1998 ATI owed $171,085 including $120,000 on its line of credit and $51,085 on an outstanding term loan. These loans require monthly payments of about $2,100 that consist of $1,200 in interest only payments on the line of credit and $900 in interest and principal on the term loan. If there is an unanticipated decrease in revenue or an increase in expenses, ATI may not be able to pay its bills and may be forced to cease operations. While we cannot precisely portray ATI's current financial condition, ATI's financial viability is at substantial risk.

Adequacy of the Plan

In January 1998 ATI's CPA expressed concerns to ATI management about its financial condition. The CPA recommended ATI reduce expenses, consider several fundraisers, and determine the income or loss from each program. However, as of June 1,1998, ATI had not implemented many of the recommendations and its financial condition had worsened. The CPA then stated that if improvements are not made, ATI might be forced to cease operations.

In April 1998, the Executive Director resigned and acting Co-Executive Directors were appointed. The Co-Executive Directors took action to address the financial condition. Staff was laid off and inadequately funded services were eliminated. Volunteers were utilized to perform some of the duties of the eliminated staff. Other expenses were cut back, and ATI moved into a smaller office. ATI was able to secure a $5,000 grant and a $15,000 loan, which has been repaid. These actions resulted in a balanced budget for the remainder of the year. While these actions helped ensure ATI's financial condition would not worsen, they had minimal effect on the negative financial condition or the liabilities that ATI had accumulated.

At our request, ATI developed a financial plan to address its financial condition in November 1998. The plan addressed action already taken and proposed investigating potential sources of revenue such as legislative and corporate grants, sponsorships, expansion of fee for service activities, a membership campaign, and fundraising activities such as raffles and benefit concerts. However, the plan is not specific and does not adequately address how ATI will improve its financial condition or when its net assets will be greater than zero.

Since most of ATI's funding comes from grants that are reimbursement based, i.e., reimbursement is based on the expenses incurred in providing services, the grant funds cannot be used to reimburse deficits, loans, or expenses related to other programs. ATI needs to explore and find new sources of revenue to pay off its debt and to remain fiscally viable. ATI needs to develop a plan with a short-term and a long-term strategy for improving its financial condition. The plan needs to show that revenue is adequate to cover administrative and program expenses for services that are currently provided. The plan should also include short-term and long-term cash projections along with dates and sources of funds to repay the outstanding loans. The plan will also need to be monitored and updated on a routine basis.

Other Matters

As part of our review we noted several other matters. These areas relate to the Board of Directors, monitoring program revenues and expenses, management and general expenses, and account balances.

A board of directors has a fiduciary responsibility to provide adequate oversight over the fiscal affairs of the entity. However, we question whether ATI's Board met its fiduciary responsibility. We determined that, on average, only four out of its ten members were present at Board meetings. In the past, members who missed meetings were not provided with minutes of the meetings or informed about the issues discussed. Considering the CPA's concerns about ATI's deteriorating financial condition, the Board should have taken a more active role in the fiscal affairs to ensure the necessary improvements were implemented.

Prior to expanding services and programs, ATI should ensure there is a need for the services and revenue is adequate to cover expenses. A budget should be developed for each program and it should be compared to actual revenue and expenses on a routine basis to ensure the programs are fiscally viable. Based on our review of the June 30, 1997 financial statements, it appears ATI did not adequately monitor its programs and incurred $129,578 more in expenses than available revenue.

Management and general expenses include those expenses that are not directly identifiable with any specific function or program but provide for the overall support and direction of the entity. We noted that ATI reported management and general expenses totaling $109,502 or 23.2 percent of the program expenses for the 1997 fiscal year. It appears the management and general expenses were excessive considering most grants only allow ten percent for administration. ATI management responded that administrative staff have traditionally spent between 25 and 50 percent of their time providing direct consumer and community services in the course of their duties.

Bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000 per account. We noted that ATI's account exceeded the $100,000 limit on several occasions. As such, ATI was at risk for loss of funds in case of a bank failure.

Recommendations

1. Submit the December 31, 1998 audited financial statements to VESID as soon as they are issued.

2. Obtain assistance from a CPA or qualified individual to correct errors in the accounting system and develop written procedures for processing accounting transactions.

3. Develop a plan with a short-term and a long-term strategy for improving its financial condition and submit to VESID.

4. Ensure revenue is adequate to cover administrative and program expenses for services that are currently provided.

5. Develop budgets and short-term and long-term cash projections along with dates and sources of funds to repay the outstanding loans.

6. Monitor and update the plan on a routine basis.

7. Ensure the Board takes an active role in managing ATI affairs.

8. Ensure revenue is adequate to cover expenses for all programs.

9. Determine if it is feasible to reduce management and general expenses.

10. Limit bank account balances to the FDIC $100,000 insurance limit.

Comments of ATI Officials

ATI officials agreed with the recommendations and have already implemented many of them.

Contributors to the Report
Action Toward Independence, Inc.

- Michael Abbott, CPA, Audit Manager
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Appendix B

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ACTION TOWARD INDEPENDENCE

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February 24, 1999

Mr. Daniel Tworek
Director, Office of Audit Services
The State Education Department
The University of the State of New York
Room 524 EB
Albany, New York 12234

Dear Mr. Tworek:

Thank you for the opportunity to review the draft audit report for our agency for the period October 1, 1997 through September 30, 1998.

The report's recommendations are very helpful. Many have already been implemented. The audited financial statement for the period ending December 1997 has been completed and submitted to the VESID Independent Living Unit. The agency's operating budget has been revised to ensure that revenue is adequate to cover expenses. We are in the process of re-starting our computerized accounting system as of January 1, 1999, according to the recommendation of an independent CPA. The Board of Directors has met several times to further develop a plan to address the need for fundraising and debt reduction.

While the report does makes it clear that the current management staff of the agency is aware of the deficiencies in past accounting procedures and practices and has honestly acknowledged this, we would like to stress that **we have found no reason to suspect that actual funds were not appropriately used**. We are concerned that the comment on page 2, paragraph 3 of the report ("accounting records showed ATI had a cash balance of $71,403 on November 25, 1998, . . . the real balance was only $56,569 . . . Management could not account for the $14,834 difference") would be taken to indicate that there are 14,834 actual dollars that can not be accounted for. We do not believe that this is the case. In reviewing the computerized system, we have found multiple errors dating back to the original implementation of the system in 1995. It is nearly impossible at this point to fix all these errors in order to maintain a continuous system. This is why we are starting over with the beginning of the agency's fiscal year, with opening balances based on actual figures that are derived from hard copies of records. The records indicate that all funds received were deposited to agency bank accounts and spent for legitimate agency expenses. We feel confident that, given the time to complete the work, we will be able to rely on our computerized books and generate accurate financial information.

Our other concern with the report is related to the management and general expenses (estimated at 23.2% of total expenses). It should be noted that, like most small Centers for Independent Living, ATI has several staff members whose job titles are administrative in nature, but who do provide a variety of direct consumer and community services in the course of their duties. The Directors and Managers all participate in or conduct community education and systems advocacy activities, as well as provide consumer services such as peer support, information and referral, individual advocacy, etc. Service statistics indicate that administrative staff have traditionally spent between 25% and 50% of their time providing independent living services.

Again, we appreciate the time that the auditors took with us and the oppportunity to work with VESID to continue to provide much needed services to people with disabilities in our communities.

Sincerely,

Nancy Horton

Nancy Horton
Co-Director