

Independent Audit Guidelines

Introduction

The Department of Administrative Services (DAS) requires certain Oregon Forward Contractors (OFC's) to conduct an independent audit of their "direct labor", as defined in Oregon Revised Statute (ORS) 279.835(6)(c) and Oregon Administrative Rule (OAR) 125-055-0005(9)(c). The direct labor audit (the "Audit") is designed to assist DAS in ensuring ongoing OFC compliance with applicable law and eligibility for participation in the Oregon Forward Program. The Audit should be conducted in conjunction with the OFC's financial audit and must be performed in accordance with the following; Standards established by the American Institute of Certified Public Accountants, ORS 279.835(6)(c) , OAR 125-055-0017 and OAR 125-055-0035 and these guidelines.

Background

The Oregon Legislative Assembly passed the law authorizing the Oregon Forward Program in 1977. The purpose of this law is to support employment of individuals with disabilities by providing a market for products and services from nonprofit community rehabilitation organizations. [\[ORS 279.835 – 279.855\]](#) By statutory authority, DAS is appointed to facilitate the state's policy through the administration of the Oregon Forward Program. To govern the Oregon Forward Program, DAS has implemented rules. [\[OAR 125-055-0005 through 125-055-0040\]](#)

Those OFCs whose gross revenues generated under the Oregon Forward Program exceed \$100,000.00 in the most OFC's most recent fiscal year shall employ a Certified Public Accountant (CPA) to conduct an independent Audit of direct labor to determine compliance with ORS 279.835(6)(c) and OAR 125-055-0005(9).

Purpose

These guidelines are intended to provide guidance to a CPA employed by an OFC required to conduct an Audit for the OFC's most recent complete fiscal year. These guidelines are provided only to aid the CPA in complying with the requirements of OAR 125-055-0035. The audit shall be an examination of the OFC's records, and shall include an examination report, and findings, if any.

Documentation

In order for a CPA to conduct an examination, the OFC will need to provide the CPA the following records. [\[OAR 125-055-0035\(3\)\]](#)

- (a) A list of all products and services provided during the OFC's fiscal year;
- (b) A list of all individuals with disabilities employed by the OFC providing direct labor, unique employee identification number, job description and disability status;
- (c) A list of all individuals performing paid or unpaid direct labor, unique employee identification number and job description;
- (d) A compilation of the total hours of direct labor performed by the OFC during the fiscal year;
- (e) Payroll reports for all individuals employed by the OFC during the fiscal year, including employee name, work hours paid, vacation hours, sick leave hours and training hours. Hours worked must be segregated from hours paid but not worked;
- (f) Time and billing records showing direct hours worked by each employee in the manufacture of goods or provision of services;
- (g) The OFC must have documentation of disability on file for each employee who is claimed to be an individual with a disability. The acceptable forms of disability documentation are defined in OAR 125-055-0017(1)(b); and

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(h) A Competitive Employment statement must be on file for each employee who is claimed to be an individual with a disability, except as described in OAR 125-055-0017(1).

Examination: In accordance with principles generally accepted in the industry, the CPA should determine whether the OFCs time and billing and payroll records are sufficiently complete and reliable for demonstrating compliance with the sixty (60) percent direct labor requirement. The records should clearly distinguish direct labor hours from other hours worked and paid, and allow for ready assessment of direct hours worked by employees with disabilities, as well as employees without disabilities.

CPA Reporting: The CPA shall prepare and provide a signed letter of attestation and the compilation worksheet to the OFC's management, certifying the CPA's findings and conclusions on the following;

- (a) Whether the time, billing, and payroll records were sufficiently complete and reliable for the CPA to determine compliance with the 60 percent disabled direct labor requirement. If the records are not sufficiently complete and reliable, the CPA should list the deficiencies and make recommendations.
- (b) A breakdown of the portion of direct labor hours, for the overall fiscal year, that were worked by persons with disabilities, as examined by the CPA.
- (c) A breakdown of the portion of the total number of sampled employees with disabilities who performed direct labor during the fiscal year and for whom acceptable forms of documentation of disability were retained.
- (d) The steps being taken to resolve any prior examination findings and recommendations.

OFC Reporting: The OFC is required to submit the CPA's letter of attestation, signed by a board member, and the compilation worksheet within 120 calendar days after the close of the OFC's fiscal year.

Acceptable Methodologies for Supervisory Time Capture:

DAS recognizes that there are numerous methods available for capturing supervisory direct labor. For the purposes of the Oregon Forward Program, there are three acceptable methods;

- 1) **Direct Labor Hour Reporting:** OFCs choosing to utilize this technique shall capture each individual supervisor or job coach's time on a daily basis and allocate those hours as either direct or non-direct labor hours.
- 2) **Application of set percentage:** OFCs choosing to utilize this technique shall conduct hour sampling of all of their supervisors and job coaches to determine the proper percentage to be applied to all supervisors' hours. The samples and the summary report shall be re-evaluated every two years, or when products or services change and the structure of the organization are affected; whichever is sooner. A copy of the sampling and the summary report shall be available for the CPA to review while conducting the annual audit.
- 3) **Federal program guidelines:** OFCs choosing to utilize this technique shall maintain a copy of the federal guidelines directing the 50% split of supervisor's time between direct labor and non-direct labor for the CPA to review while conducting the annual audit.

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[sample attestation letter]

Report Date

Independent Accountant's Report (Unqualified)

To: [Oregon Forward Contractor] (OFC):

We have examined [OFC's] compliance with requirements set out in ORS 279.835(5)(c) and OAR 125-055-0005(8), with regard to direct labor hour requirements during the period of _____ through _____ (the OFC's fiscal year). Management is responsible for [OFC]'s compliance with those requirements. Our responsibility is to express an opinion on [OFC]'s compliance based upon our examination.

Our examination was conducted in accordance with standards established by the American Institute of Certified Public Accountants, and, accordingly, included examining, on a test basis, evidence about [OFC]'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [OFC]'s compliance with specified requirements.

In our opinion, [OFC] complied/did not comply, in all material respects, with the aforementioned requirements during the period of _____ through _____.

Firm Signature

Firm Location

OFC Board Member Signature: _____