



Office of Inspector General  
Legal Services Corporation

**Inspector General**

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December 18, 2017

Ms. Maria Thomas-Jones  
Executive Director  
Legal Aid of Northwest Texas  
600 East Weatherford Street  
Fort Worth, TX 76102

Dear Ms. Thomas-Jones:

Enclosed is the Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Legal Aid of Northwest Texas. Your comments are included in the final report as Appendix II.

The OIG considers your proposed actions to address Recommendations .1 through 9 and 11 as responsive. The actions planned by grantee management to address the issues and revise and update its Accounting Manual should correct the issues identified in the report.

However, recommendation 10 will remain open until the grantee has updated its Administration Accounting Manual to include the fixed assets list of elements required by LSC's Fundamental Criteria for property records.

Please provide us with your response to close out the one open recommendation with the revised Administration Accounting Manual within six months of the date of this final report.

Sincerely,

Jeffrey E. Schanz  
Inspector General

Enclosure

cc: Legal Services Corporation

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For Grants Management

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**LEGAL SERVICES CORPORATION  
OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL  
CONTROLS**

**LEGAL AID OF NORTHWEST TEXAS**

**RNO 744050**

Report No. AU 18-01

December 2017

[www.oig.lsc.gov](http://www.oig.lsc.gov)

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## **INTRODUCTION**

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Legal Aid of Northwest Texas (LANWT or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Fort Worth, Texas and at LSC headquarters in Washington, DC.

In accordance with the Accounting Guide for LSC Recipients (2010 Edition) (Accounting Guide), Chapter 3, an LSC grantee "...is required to establish and maintain adequate accounting records and internal control procedures." The Accounting Guide defines internal control as follows:

[T]he process put in place, managed and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:

1. safeguarding of assets against unauthorized use or disposition;
2. reliability of financial information and reporting; and
3. compliance with regulations and laws that have a direct and material effect on the program.

Chapter 3 of the Accounting Guide further provides that each grantee "must rely... upon its own system of internal accounting controls and procedures to address these concerns" such as preventing defalcations and meeting the complete financial information needs of its management.

## **BACKGROUND**

Legal Aid of Northwest Texas (LANWT) is a non-profit corporation organized for providing legal assistance to low-income Texans. Services are provided at 16 offices, which encompass 114 counties. Its mission is to ensure equal justice for people living in poverty by providing high quality representation and improve lives through the rule of law.

LANWT receives funding from various sources including LSC, the Texas Access to Justice Foundation and Department of Justice. Audited financial statements for fiscal year ending December 31, 2016 show 51 percent or \$9,003,797 of LANWT's funding is provided by LSC and the remaining 49 percent or \$8,813,800 from other funding sources.

## **OBJECTIVE**

The overall objective was to assess the adequacy of selected internal controls in place at the grantee as the controls related to specific grantee operations and oversight, including program expenditures and fiscal accountability. The audit evaluated select financial and administrative areas and tested the related controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations.

## **AUDIT FINDINGS**

To accomplish the audit objective, the OIG reviewed and tested internal controls related to disbursements, contracting, fixed assets, credit cards, cost allocation, derivative income, internal reporting and budgeting, general ledger and financial controls, employee benefits, and payroll. Controls were adequately designed and properly implemented as they relate to many specific grantee operations and oversight. However, controls in the areas detailed below need to be strengthened and/or formalized in writing.

### **COST ALLOCATION**

#### **Inadequate Policies and Procedures**

LANWT's written policies and procedures for cost allocation partially adhere to the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. The written policy does not describe the allocation methodology for LSC unallowable expenses. Also, the cost allocation formula is not adequately documented in writing with sufficient detail for an auditor to easily understand, follow and test.

The Accounting Supervisor stated that he can update the Administration Accounting Manual to specifically describe how LSC unallowable expenses are handled. He added that he referred to the LSC Accounting Guide to update LAWNT's Administration Accounting Manual but did not see a specific requirement for LSC unallowable expenses detailed in the LSC Accounting Guide. In regard to the allocation formula, the CFO is willing to review their current cost allocation policy and procedures.

LSC Regulation 45 CFR §1630.3(a)(2) and Program Letter 16-7 stipulate that only costs that are "reasonable and necessary for the performance of the grant or contract" can be charged to the LSC grant. For example, LSC has determined that the use of LSC grant funds for the purchase of flowers, gifts, or alcoholic beverages is not reasonable or necessary and therefore unallowable under the LSC grant. In addition, the LSC Accounting Guide, Section 3-5.9, stipulates that the allocation formula should be adequately documented in writing with sufficient detail for the auditor, LSC, OIG, GAO, and others to easily understand, follow and test.

A policy without detailed procedures for allocating LSC funds for unallowable or unnecessary expenses may result in violation of LSC rules and regulations. Moreover, without a detailed written cost allocation formula, there could be lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover.

**Recommendation 1:** The Executive Director should ensure written policies and procedures for cost allocation describe the allocation methodology for LSC unallowable costs and include the allocation formula with sufficient detail for an auditor and others to easily understand, follow and test.

## **CONTRACTING**

### Inadequate Policies and Procedures

LANWT's current Administration Accounting Manual does not include written policies and procedures for contracting that adhere to the *Fundamental Criteria* contained in the LSC Accounting Guide. The Accounting Supervisor stated the old Administration Accounting Manual had a contract section but it may have been an oversight that it was not transferred into the updated manual. The previous manual's contracting policies were inadequate in that they did not include policies and procedures relating to various types of contracts, processes for each contract action, and the type and dollar value of contracts that require competition.

The LSC Accounting Guide, Section 3-5.16, stipulates that the grantee's formal policies identify the contracting procedures for various types of contracts, dollar threshold, competition requirements, and the maintenance of documentation for each contract action to be followed by the grantee in complying with the *Fundamental Criteria*.

Contracting is a high-risk area for potential abuse and fraud. Without adequate policies and procedures over all types of contracts, the contracting process may result in the waste of scarce funds and subject the grantee to questioned costs and proceedings.

### Inadequate Documentation

The OIG reviewed 18 vendor files and tested them for adherence to the *Fundamental Criteria*. Our review noted inadequate contracting documentation as follows:

- Two vendor files where management was unable to locate a documented contractual agreement for the services provided.
- Two vendor files had no contracts for the entire period of the services provided.
- Twelve vendor files had no documentation describing the vendor selection process.
- One vendor file where payments were issued according to the invoice, however, the invoice did not agree with the rates shown on the contract.

While some of the costs involved with the services were not high dollar amounts, the business arrangements were for recurring services and therefore, the terms and price should have been documented in a contractual agreement.

The LSC Accounting Guide, Section 3-5.16 stipulates that all documentation supporting competition and the process used for each contract action should be maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved and maintained in a contract file. In addition, the statement of

work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that they are complete. Documentation to support competition should be retained and kept with contract files.

Failure to maintain documentation in a centralized filing system could result in less control and security over the contracting documentation. Management also runs the risk of lost or misplaced contracting information and noncompliance with LSC regulations on contract maintenance. Without a formal contract, the statement of work and other contract terms cannot be adequately communicated, monitored or enforced which may hinder management's ability to detect the risk of fraud, waste or abuse.

**Recommendations:** The Executive Director should:

**Recommendation 2:** Ensure that written policies and procedures for contracts include procedures for the various types of contracts, processes for each contract action, and the type and dollar value of contracts that require competition.

**Recommendation 3:** Ensure the following for contracted services:

- a. Contract agreements are written, signed and maintained for all business arrangements, especially those recurring in nature. The contracts should fully document the agreed upon terms and selling price. Payment terms should be reviewed periodically to ensure they are defined and current.
- b. The process for each contract action is fully documented in writing such as sole source justification and documentation of competition, if competitively bid.
- c. A centralized filing system for all contracts is maintained and contains all pertinent documents related to solicitation of bids, including receipt and evaluation of bids, sole source justification, vendor selection, a signed contract or agreement and any agreed upon modifications to a contract agreement.

## **GENERAL LEDGER AND FINANCIAL CONTROLS**

### **Shared Username and Password**

LANWT'S written policies and procedures for general ledger and financial controls are adequate and adhere to LSC's *Fundamental Criteria*. However, based on interviews held with several staff members, the OIG found that the CFO does not have an assigned unique username and password to access the accounting system. According to the CFO, he currently uses the Accounting Operations Manager's username and password. He further explained that he does so because he does not perform actual work on a daily basis within the accounting system.

The LSC Accounting Guide, Chapter 3-6, stipulates that passwords should not be shared to prevent fraud.

Sharing usernames and passwords widens the potential for fraud and unauthorized access, and obscures the audit trail of the accounting system.

**Recommendation 4:** The Executive Director should ensure that each staff member is assigned a unique username and password to access the accounting system.

## **DISBURSEMENTS**

### Inadequate Policies and Procedures

The grantee's practices related to disbursements were mostly adequate except for the few issues described below. However, LANWT's written policies and procedures for disbursements lacked sufficient detail at the administrative level. The Administration Accounting Manual contained step-by-step instructions for use of the accounting system, but contained no policies or procedures over the disbursement process such as voiding checks, maintenance and safeguarding of the blank stock of pre-numbered checks, or authorized signatories.

The Accounting Supervisor acknowledged the need to update the Administration Accounting Manual to reflect current policies. He also explained that the policies and procedures have not been documented because the accounting department has a very low staff turnover rate.

The LSC Accounting Guide, Section 3-4, stipulates that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*.

Written policies and procedures serve as a method of documenting the design of processes and internal controls, and adequately communicating them to staff. Without detailed written procedures, there could be a lack of transparency and consistency in the application of the methodology, especially in the cases of staff turnover.

### Improper Approval

The OIG reviewed and tested 107 disbursements, comprised of 88 vendors, totaling \$506,508 for the period January 1, 2016 through June 30, 2017. Three disbursements totaling \$1,692 were not approved in accordance with the grantee's documented procedures. Specifically, they were not accompanied by check request forms as required by the grantee's approval procedures.

- Two disbursements totaling \$142 were for notary registrations.
- One disbursement totaling \$1,550 was for the grantee's attorneys' bar dues. This amount was not paid with LSC funds.

The Accounting Supervisor explained that bar dues and notary registrations were acceptable and routinely processed without check request forms. He further stated the Accounting department receives requests directly and it is tasked with verifying if the employee is eligible and on the current roster prior to processing the disbursement. The OIG determined the policies and procedures concerning bar dues and notary registrations were not documented in the grantee's Administration Accounting Manual.

As a result, it appears there are no supervisory approvals for bar dues and notary registration expenses. Therefore, it is difficult to verify if the appropriate approvals were obtained. Failure to follow the purchase process may result in purchases made without the knowledge of appropriate management or at unacceptable prices or terms.

**Recommendations:** The Executive Director should:

**Recommendation 5:** Ensure that written policies and procedures for disbursements include procedures for all disbursement processes, including the purchase approval process for recurring bills, voiding checks, maintaining and safeguarding check stock, and obtaining the required number of check signatories.

**Recommendation 6:** Ensure that check request procedures are followed and any deviation from the procedures are adequately documented in the written policies.

## **CREDIT CARDS**

### **Inadequate Policies and Procedures**

LANWT's written policies and procedures over credit cards are mostly comparable to the LSC Accounting Guide requirements. However, the Administrative and Branch Office Manual lacks policies and procedures for the issuance, activation and deactivation of cards, spending limit and cardholder reconciliation process.

The grantee has two major credit cards – American Express with five authorized users and Visa with two authorized users. The American Express credit card is used for travel, training and other uses for employees to perform their job responsibilities. The Visa credit card is exclusively used for litigation. The OIG interviewed the Accounting Operations Manager and determined that LANWT does not have an acknowledgement receipt for credit cards from authorized credit card users and no authorized user agreement was provided to ensure for proper use of credit cards.

The Chief Financial Officer stated that authorized credit card users were verbally made aware of the responsibilities associated with access to credit card information.

The LSC Accounting Guide, Appendix VII, stipulates that controls over credit cards should include policies for: employees to review and sign off on; a maximum dollar amount for approvals; timely review and payment of credit card transactions; denial of access to terminated employees or those employees transferred to incompatible positions; and credit cards to be returned by terminated employees.

A written credit card policy serves as a foundation for a good credit card expense control system. Without written policies and procedures over credit cards, resources may be used for unauthorized purposes and transactions may be initiated that would violate management intentions.

**Recommendation 7:** The Executive Director should ensure that written policies and procedures for credit cards include procedures for issuance of credit cards,

documentation acknowledging receipt of the credit card, and the reconciliation and deactivation processes.

## **INTERNAL REPORTING AND BUDGETING**

### Discrepancy Between Written Policies and Internal Practices

LANWT's written policies and procedures for management reporting and budgeting are mostly comparable to LSC's *Fundamental Criteria*. However, there was a discrepancy between the written policy and the actual practice. LANWT's Administration Accounting Manual states that the "Narrative Analysis of Above Statements" is prepared monthly but in interviews with grantee staff, LSC OIG found that the report is prepared quarterly.

Grantee management acknowledged that updates to this portion of the Administration Accounting Manual were missed.

The LSC Accounting Guide, Section 3-4, stipulates that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*.

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to the staff. If the detailed procedures are not kept current, there could be a lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover.

### Budgeting Projections Not Built from Cost Center

OIG review of the grantee's budgeting projections and monthly and quarterly reports found that all budgets were approved by the Budget Finance and Audit Committee and the Board of Directors (as per minutes from meetings held throughout 2016 and 2017). However, overhead or operating expenses in the budget projections are not developed from the grantee's departments and incorporated to create the total budget. According to the Chief Financial Officer, the grantee only develops the salaries portion of the budgets from the department function. The operating expenses are distributed to departments based on total expense. Management did not find it efficient to spend too much time on the budgeting of operating expenses since the line items are based on the actual expenses of the last two years and overhead is usually only fifteen to seventeen percent of the total budget.

The LSC Accounting Guide 3-5.10 stipulates the budget should be built from cost center function and "rolled-up" to create the total budget.

Projections made centrally without adequate input from the department manager may result in incomplete information and a distortion of the projected financial condition of the grantee.

**Recommendations:** The Executive Director should:

**Recommendation 8:** Ensure that written policies and procedures related to the Narrative Analysis report be updated to reflect the grantee's current practices.

**Recommendation 9:** Consider evaluating the grantee's budgeting process so that all budget revenues and expenses are developed from the department function and incorporated to create a total budget.

## **FIXED ASSETS**

### **Inadequate Policies and Procedures**

LANWT's written policies and procedures for fixed assets do not contain all the elements required by LSC's *Fundamental Criteria*. Specifically, the Administration Accounting Manual does not include the following:

- List of elements required by the *Fundamental Criteria* for property records.
- Policies and procedures for tracking sensitive electronics that are not capitalized.
- Physical inventory procedures.
- Dollar value for capitalization of fixed assets.

According to the Accounting Supervisor, staff used the old manual and basically updated the information to the current processes. Therefore, he was not sure why the information was not included in the Administration Accounting Manual.

The LSC Accounting Guide, Section 3-4, stipulates that each grantee must develop a written accounting manual describing the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*.

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to staff. Without detailed written procedures, there could be a lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover. Approved documented policies and procedures represent grantee management's intentions on the handling of the processes and serves as a method of documenting the design of controls, communicating them to the staff and ensuring that proper controls are followed.

**Recommendation 10:** The Executive Director should ensure that written policies and procedures for fixed assets include the list of elements required by LSC's *Fundamental Criteria* for property records, procedures for tracking sensitive electronic items that are not capitalized, procedures for physical inventory, and the dollar value for capitalization of fixed assets.

## PAYROLL

### Inadequate Policies and Procedures

LANWT's practices over payroll processes seem to be adequate and comparable to LSC's *Fundamental Criteria*. However, there was no documentation of the actual payroll policies and procedures or the functions of payroll staff as related to the process involved.

The Human Resource Manager stated she has been updating and documenting a lot of procedures on an electronic shared drive. However, OIG found that the documents on the shared drive are step-by-step guidelines on how to navigate the payroll software; they are not policies and procedures. The Human Resource Manager also stated that most of the staff know their roles; but agrees with the OIG that the manual needs to be enhanced to describe the payroll process.

The LSC Accounting Guide Section 3-4 stipulates that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*.

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to staff. Without detailed written procedures, there could be lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover.

**Recommendation 11:** The Executive Director should ensure that written policies and procedures for payroll include procedures for the payroll process such as supervisory review and approval of timesheets, reconciliation of salary payments to timesheet records, and authorization and justification for adjustments to pay rates.

## **GRANTEE MANAGEMENT COMMENTS**

Grantee management agreed with all the findings and recommendations contained in the report. LANWT updated its Administration Accounting Manual for all but the fixed asset list of elements issue identified within the report. Management agreed to ensure that the centralized contracts filing system contains all pertinent documentation related to solicitation of bids, receipts and evaluation of bids, sole source justification, vendor selection, a signed contract or agreement and any agreed upon modifications to a contract or agreement. Staff members have been assigned their own username and password within the accounting system.

The Grantee's comments are included in Appendix II.

## **OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS**

The OIG considers the proposed actions to address all the recommendations as responsive. The actions taken and planned by grantee management to revise and update its Administration Accounting Manual are adequate. Recommendations 1 through 9 and 11 are considered closed. Recommendation 10 will remain open until the grantee has updated its Administration Accounting Manual to include the fixed assets list of elements required by LSC's *Fundamental Criteria* for property records.

## **SCOPE AND METHODOLOGY**

To accomplish the audit objective, the OIG identified, reviewed, evaluated and tested internal controls related to the following activities:

- Cash Disbursements,
- Credit/debit cards,
- Contracting,
- Cost Allocation,
- Derivative income,
- General Ledger and Financial Controls,
- Internal Management Reporting and Budgeting,
- Property and Equipment,
- Employee Benefits, and
- Payroll.

To obtain an understanding of the internal controls over the areas reviewed, grantee policies and procedures were reviewed including manuals, guidelines, memoranda and directives, setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework; management and staff were interviewed as to their knowledge and understanding of the processes in place. To review and evaluate internal controls, the grantee's internal control system and processes were compared to the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. This review was limited in scope and not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations.

We assessed the reliability of computer generated data the grantee provided by reviewing available supporting documentation for the entries selected for review, conducting interviews and making physical observations to determine data consistency and reasonableness. We determined the data was sufficiently reliable for the purposes of this report.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of vendor files were reviewed. The sample consisted of 107 disbursements totaling \$506,508. The sample represented approximately 11 percent of the \$4,447,185 disbursed for expenses other than payroll during the period January 1, 2016 to June 30, 2017. To assess the appropriateness of expenditures, we reviewed invoices and vendor lists, then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated based on the grant agreements, applicable laws and regulations and LSC policy guidance.

In addition to the disbursements, we sampled 19 credit card transactions totaling \$8,478.13. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

To evaluate and test internal controls over employee benefits, payroll, contracting, internal management reporting and budgeting, general ledger and financial controls, as well as derivative income, we interviewed appropriate program personnel, examined related policies and procedures as applicable and selected specific transactions to review for adequacy.

To evaluate the adequacy of the cost allocation process, the OIG discussed the process with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We reviewed selected transactions to determine if the amounts allocated were in conformity with the documented LANWT's allocation process and if the transactions were properly allocated in the accounting system.

Controls over purchasing, recording, inventorying and disposal of property and equipment were reviewed by examining current grantee practices in comparison with LSC regulations and policies outlined in the LSC Accounting Guide.

The on-site fieldwork was conducted from July 19, 2017 through July 28, 2017. Our work was conducted at the grantee's administrative office in Fort Worth, TX and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2016 through June 30, 2017.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.



## Legal Aid of NorthWest Texas

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December 12, 2017

Via E-Mail: [jseeba@oig.lsc.gov](mailto:jseeba@oig.lsc.gov)

Mr. John Seeba  
Assistant Inspector General for Audit  
Office of Inspector General  
Legal Services Corporation  
3333 K. Street, NW, 3<sup>rd</sup> Floor  
Washington, DC 2007-3558

RE: Legal Aid of NorthWest Texas  
Response to Draft Report on Selected Internal Controls  
RNO: 744050

Mr. Seeba:

Attached to this correspondence is Legal Aid of NorthWest Texas' response to the OIG's draft report, dated November 9, 2017, based on an audit of Selected Internal Controls. The response also includes policies and procedures that LANWT has already implemented into our fiscal oversight and administration.

Please be advised that our accounting staff and I attended today's webinar sponsored by LSC regarding the new and amended regulations surrounding purchasing which will be effective December 31, 2017. LANWT will be reviewing our policies and processes to ensure compliance with these changes.

Please be advised that the original response will be mailed to your office.

Sincerely,

  
Maria Thomas-Jones  
Chief Executive Officer

Enclosures

**RESPONSE BY LEGAL AID OF NORTHWEST TEXAS**

TO

LEGAL SERVICES CORPORATION

Office of Inspector General's

DRAFT REPORT  
ON SELECTED INTERNAL  
CONTROLS

On-Site Visit to  
Legal Aid of NorthWest Texas  
July 19 – 28, 2017

Recipient No. 744050

## **SUMMARY**

On July 19, 2017, Legal Aid of NorthWest Texas (LANWT) welcomed the Legal Services Corporation's (LSC), Office of Inspector General (OIG), site team to its program for an assessment of certain selected internal controls. The site team concluded its on-site field visit on July 28, 2107. The OIG site team provided its informal assessment of their findings during an exit interview with senior management. LANWT appreciates the insight and general information shared by the OIG site team during its exit interview.

On or about November 9, 2017, LANWT received OIG's Draft Report on Selected Internal Controls (Draft Report). The OIG has invited LANWT to provide its comments to the Draft Report prior to issuance of a final report.

LANWT is committed to providing high quality internal accounting controls related to its administrative operation and fiscal oversight. The OIG's review and testing of internal controls related to disbursements, contracting, fixed assets, credit cards, cost allocation, derivative income, internal reporting and budgeting, general ledger and financial controls, employee benefits, and payroll. LANWT's Chief Financial Officer has more than 30 years of financial oversight and management experience with LSC-funded programs. The Chief Executive Officer was hired full time in December 2016. LANWT's accounting and finance department has personnel experienced in fiscal management and oversight.

LANWT presents the following responses to the draft findings and recommendations set forth in OIG's Draft Report for consideration prior to issuance of its final report.

## **RESPONSES TO OIG's AUDIT FINDINGS AND RECOMMENDATIONS**

**Recommendation 1:** The Executive Director should ensure written policies and procedures for cost allocation describe the allocation methodology for LSC unallowable costs and include the allocation formula with sufficient detail for an auditor and others to easily understand, follow and test.

**Response:** As recommended, the written policy for cost allocation is now revised to include allocation methodology for LSC unallowable costs. The policy also includes the allocation formula with sufficient details to allocate indirect costs to the applicable grants. Please see *EXHIBIT A*, attached to this response and incorporated herein.

**Recommendation 2:** Ensure that written policies and procedures for contracts include procedures for the various types of contracts, processes for each contract action, and the type and dollar value of contracts that require competition.

**Response:** As recommended, written policy for contracts is now revised to include procedures for the various types of contracts, processes for each contract action, and the type and dollar value of contracts that require competition. Please see ***EXHIBIT B***, attached to this response and incorporated herein.

**Recommendation 3:** Ensure the following for contracted services:

- a. Contract agreements are written, signed and maintained for all business arrangements, especially those recurring in nature. The contracts should fully document the agreed upon terms and selling price. Payment terms should be reviewed periodically to ensure they are defined and current.
- b. The process for each contract action is fully documented in writing such as sole source justification and documentation of competition, if competitively bid.
- c. A centralized filing system for all contract is maintained and contains all pertinent documents related to the solicitation of bids, including receipt and evaluation of bids, sole source justification, vendor selection, a signed contract or agreement and any agreed upon modifications to a contract agreement.

**Responses:**

- a. LANWT will ensure that all of its contract agreements are in writing, signed and maintained for all business arrangements, especially those recurring in nature. We will further ensure that the agreements reflect the agreed upon terms and selling price and that the contracts are reviewed periodically to ensure they are current.
- b. If the contract was competitively bid, then the competition will be documented. If it was a sole source then we will ensure that the justification is documented in the contract file.
- c. LANWT currently maintains a centralized filing system for contracts in the accounts payable section. Moving forward, we will ensure that the files contain all pertinent documents related to solicitations of bids, including receipts and evaluations of bids, sole source justification, vendor selection, a signed contract or agreement and any agreed upon modifications to a contract agreement.

**Recommendation 4:** The Executive Director should ensure that each staff member is assigned a unique username and password to access the accounting system.

**Response:** Each of the authorized staff member has their own unique username and password to access the accounting system, including Chief Financial Officer.

**Recommendations 5 and 6:** Ensure that written policies and procedures for disbursements include procedures for all disbursements processes, including the purchase approval process for

recurring bills, voiding checks, maintaining and safeguarding check stock, and obtaining the required number of check signatories.

Ensure that check request procedures are followed and any deviation from the procedures are adequately documented in the written policies.

**Responses:** Disbursement policy is now revised to include suggestions made in recommendation 5 and 6. Please see *Exhibits C and D*, attached to this response and incorporated herein.

**Recommendation 7:** The Executive Director should ensure that written policies and procedures for issuance of credit cards, documentation acknowledging receipt of the credit card, and the reconciliation and deactivation processes.

**Response:** The credit card policy is now written and implemented. As suggested, the procedures now include issuance of credit cards, reconciliation and deactivation processes. Credit card users shall acknowledge, in writing, receipt of their authorization to use the creditor card and agree to ensure proper usage of the credit card according to the corporation's credit card policy. Please see *Exhibit E*, attached hereto and incorporated herein.

**Recommendation 8:** Ensure that the written policies and procedures related to the Narrative Analysis Report be updated to reflect the grantee's current practices.

**Response:** The written policies and procedures related to the submission of Narrative Analysis Report is now updated from "Monthly" to "Quarterly" to reflect our current practices. Please see *Exhibit F*, attached hereto and incorporated herein.

**Recommendation 9:** Consider evaluating the grantee's budgeting process so that all budget revenues and expenses are developed from the department function and incorporated to create a total budget.

**Response:** The procedure is implemented where overhead expenses in the budget projections are also now developed from LANWT's departments and incorporated to create total budget. Please note that 2018 budget draft which will be approved at the December 2017 Board meeting was prepared based on this revised procedure.

**Recommendation 10:** The Executive Director should ensure that written policies and procedures for fixed assets include the list of elements required by LSC's Fundamental Criteria for property records, procedures for tracking sensitive electronic items that are not capitalized, procedures for physical inventory, and the dollar value for capitalization of fixed assets.

**Response:** The policy and procedures for fixed asset is now revised to include all the elements mentioned in the recommendation above. Please see *Exhibit G*, attached hereto and incorporated herein.

**Recommendation 11:** The Executive Director should ensure that written policies and procedures for payroll include procedures for the payroll process such as supervisory review and approval of timesheets, reconciliation of salary payments to timesheets records, and authorization and justification for adjustments to pay rates.

**Response:** The written policies and procedures for payroll have been enhanced as requested to reflect the procedures that control payroll processes, supervisory review and confirm the role of staff. Please see *Exhibit H*, attached hereto and incorporated herein.

**CONCLUSION:**

LANWT wishes to extend our appreciation to the Legal Services Corporation, Office of Inspector General site team for their time and guidance provided during their audit exit conference. LANWT immediately evaluated its accounting policies and procedures and many of the recommendations were implemented and being utilized prior to the release of the Draft Report. LANWT remains committed to providing high quality administrative control and fiscal oversight of the grant funds awarded by Legal Services Corporation. We will continue training our staff on our policies and procedures to improve compliance.