Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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December 23, 2019

Stephen Dickinson
Executive Director
Central Virginia Legal Aid Society, Inc.
101 West Broad Street, Suite 101
P.O. Box 12206
Richmond, VA 23241

Dear Mr. Dickinson,

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit on Selected Internal Controls at Central Virginia Legal Aid Society, Inc. We included your comments in Appendix II of the final report.

The OIG considers proposed actions to Recommendations 2, 5, and 33 as responsive and closed.

The OIG considers the proposed actions to Recommendations 1, 3, 4, 6, 7, 10 through 15, 17, 18, 20 through 23, 25 through 32, 35 and 36 as responsive and will remain open until OIG is notified in writing that the proposed actions have been completed, along with the supporting documentations and Board approved policies pertaining to Recommendations 3, 4, 11, 13, 23, 29, 31, 32, 35 and 36 are provided to OIG.

The OIG considers CVLAS comments to Recommendations 8 and 9 as partially responsive and will be referring them to LSC management.

The OIG considers CVLAS comments to Recommendations 16, 19 and 24 as unresponsive and will also refer them to LSC Management for review and action.

In your response you indicated that CVLAS requires additional time to respond to Recommendation 34; the recommendation will remain open until supporting documentation is provided to the OIG.

LSC OIG questioned the costs of 51 credit card transactions, totaling $7,555 and will be referring this amount to LSC Management for review and action due to the following:

- LSC unallowable costs per 45 CFR § 1630.5(a)(2)
- Lack of supporting documentation per 45 CFR § 1630.5(a)(8)
- Lack of sufficient accounting system documentation of expense allocations to determine the funding source per 45 CFR § 1630.5(c)(3)

Please send us your response to close-out the 28 open recommendations, along with supporting documentation within six months of the date of this final report. We thank you and your staff for your cooperation and look forward to receiving your submission by June 16, 2020.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure:

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings, Vice President for Grants Management

Central Virginia Legal Aid Services
Lonnie "Chip" D. Nunley, President

Sent by e-mail to Board Members
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LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

FINAL REPORT ON SELECTED INTERNAL CONTROLS

Central Virginia Legal Aid Society, Inc.

RNO 447030

Report No. AU 20-02

December 2019

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 Central Virginia Legal Aid Society (CVLAS or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Richmond, VA and 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:

> The 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

Central Virginia Legal Aid Society (CVLAS) is a nonprofit law firm that provides free legal aid to low income area residents in civil cases and preventive legal education in the community. CVLAS provides services from three offices located in Richmond, Charlottesville and Petersburg.

CVLAS is funded primarily through grants from the Legal Services Corporation (LSC). CVLAS received $2,357,219 in total grants per the audited financial statements year ended December 31, 2017. LSC provided approximately 62 percent or $1,456,102 and other funding sources provided approximately 38 percent or $901,117.

OBJECTIVE

The overall objective was to assess the adequacy of selected internal controls in place at the grantee. In particular, the controls related to specific grantee operations, oversight including program expenditures and fiscal accountability. The LSC OIG Audit Division, 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 cost allocation, derivative income, payroll, credit cards, disbursements, general ledger and financial controls, contracting, fixed assets, employee benefits, and internal reporting and budgeting. We also reviewed the previous OIG CVLAS Internal Control Review (ICR) Report No. AU 13-07 dated September 2013 for repeat findings.

The OIG found:

- the written policies and procedures for derivative income, disbursements, general ledger and financial controls, employee benefits, and internal reporting and budgeting were adequate.
- repeat findings in the areas of cost allocation, credit cards, disbursements and fixed assets.
- the overall internal controls for all the areas reviewed in the audit should be strengthened and implemented to ensure their effectiveness as they relate to specific grantee operations and oversight.

The OIG was unable to obtain sufficient documentation in cost allocation and derivative income to assess CVLAS' compliance with LSC regulations which resulted in a scope limitation pertaining to these two sections of the audit. The scope limitation in cost allocation also resulted in an impairment to other sections such as disbursements and credit cards.

COST ALLOCATION

We performed testwork to determine whether the grantee's cost allocation formula and methodology were reasonable and mostly adhere to LSC's *Fundamental Criteria*. We judgmentally sampled allocations of personnel and non-personnel expenses within the audit period of January 1, 2017 to March 26, 2018. However, we were unable to obtain sufficient documentation to assess CVLAS' cost allocation formula and methodology to determine whether it complied with LSC regulations and guidelines, specifically, those related to indirect costs. This caused a scope limitation for this objective of the audit.

No Audit Trail of Allocations Performed

Our testwork revealed that allocations for indirect costs are not traceable in the accounting system. The grantee only records and assigns direct costs to a corresponding funding source while indirect costs are left "unclassified" in the accounting system. At year end, the Independent Public Accountant (IPA) performs allocations for indirect costs using a formula the Executive Director developed. However, the grantee did not record the IPA performed allocations in the accounting system. In addition, the grantee did not have the allocation used by the IPA for 2017. The Executive Director presented to the OIG an allocation spreadsheet for 2017, however, it was not the official or "actual" allocation spreadsheet. He stated that he provided it for demonstration purposes only. The lack of adequate documentation of allocations performed limited the OIG's ability to determine whether CVLAS complied with LSC regulations and guidance. According to the Fiscal Administrator, they are still working on improving cost allocation procedures.

The LSC Accounting Guide 2-5 stipulates that a grantee's accounting records should be maintained in an automated system. Each grantee should establish the system most appropriate to its needs and provide an adequate audit trail for all transactions. LSC regulation 45 CFR §1630.5(c)(3) stipulates that recipients must maintain accounting systems sufficient to demonstrate the proper allocation of costs to each of their funding sources.

An accounting system without an audit trail serves as a risk for inaccurate allocation and does not provide assurance that LSC and other funding sources receive their fair and equitable share of costs incurred by the grantee. Failure to fully incorporate fund accounting into the program's accounting system may inhibit the grantee's ability to demonstrate compliance with requirements and produce useful and accurate management reports.

Deviation from Written Policies

We compared the grantee's written cost allocation methodology and formula versus the methodology and formula in practice as explained to us during a walk through with the Executive Director. As a result, we found that the grantee deviated from their own written cost allocation policies and procedures as follows:

- all unallocated indirect costs at year-end are charged only to LSC. However, we were not able to confirm if all unallocated indirect costs at year end were charged only to LSC because the allocation spreadsheet presented to OIG was for demonstration purposes only.
- Fifteen out of 23 employees did not record hours worked in the timekeeping system.
- The Fiscal Administrator and the Executive Director did not meet monthly to review allocations for indirect costs, monitor expenditures and make necessary adjustments.

The Executive Director thought that the practiced method and formula for indirect costs was adequate. The Executive Director explained that they had just recently updated the timekeeping system and not everyone had attended training. The Executive Director also explained that he meets with the Fiscal Director on an as needed or quarterly basis.

The CVLAS Accounting Manual stipulates the following:

- Common expenses are allocated among funding sources on the basis agreed to by the applicable funding organization. In the absence of approved methods, the allocation will be fair, consistent, and in an equitable manner to the individual cost centers and funds, most generally on the basis of full-time professional staff equivalent and/or the percentage of total funds received.
- All employees providing client services will record their time by matter, case and funding source in the Time Keeping System.
- Each month the office administrator meets with the Executive Director to review the allocations for the previous month, monitor expenditures and adjust for funding sources.

Not following written policies over cost allocation may prevent management and stakeholders from fairly assessing the total costs of activities.

Untimely Cost Allocations (Repeat Finding)

During an interview with the Fiscal Administrator, we found that CVLAS performs allocations once a year, at year end. This is a repeat finding as in the previous ICR, Report No. AU 13-07, dated September 2013, we noted that the cost allocation process needed to be performed more frequently and timely.

The CVLAS Accounting Manual stipulates that each month the office administrator meets with the Executive Director to review the allocations for the previous month, monitor expenditures and adjust for funding sources. The Fiscal Administrator explained that they were working on performing allocations on a quarterly basis, however, she was also trying to streamline and fix other issues within the accounting department and recently took on human resource responsibilities.

Continuing to perform cost allocations once per year may not be sufficient to provide meaningful financial information to grantee management, the Board of Directors and funders.

The Executive Director should:

Recommendation 1: ensure the accounting system provides an audit trail to present an accurate and traceable allocation report and transaction for each funding source.

Recommendation 2: ensure that CVLAS staff complies with written policies and procedures for cost allocation. Any deviation from the written cost allocation formula should be documented on file.

Recommendation 3: ensure that cost allocations are reviewed for the previous month, monitor expenditures, and make adjustments for funding sources. Perform cost allocations more than once per year.

Recommendation 4: ensure that the cost allocation process is performed frequently enough to provide meaningful financial information to grantee management, the Board of Directors, and funders.

DERIVATIVE INCOME

Inadequate Documentation Over Derivative Income Allocations

CVLAS' written policies and procedures regarding the allocation of derivative income and attorneys' fees were adequate and adhered to 45 CFR § 1630 and 1609. We performed testwork to determine whether adequate controls existed over derivative income and whether derivative income was properly recorded and allocated. However, after several requests and discussions, we were unable to obtain adequate documentation to assess CVLAS' compliance with LSC regulations on the allocation of derivative income which caused a scope limitation.

We determined, in our analysis of the general ledger, that CVLAS received $15,270 in rental income[1] during the audit period - January 1, 2017 to March 26, 2018. However, according to the Fiscal Administrator, the rental income had not been allocated at all as of March 28, 2018. The Fiscal Administrator's plan was to allocate all the rental income to LSC as her understanding was if any portion of an expense is charged to LSC, all derivative income was to be allocated to LSC. However, based on historical data from the audited financial statement report year ended 12/31/2016, 61 percent of occupancy expenses was allocated to LSC. If CVLAS plans to allocate 100% of rental income to LSC in 2017 and 2018, this would not be reasonable as it does not follow the established rate determined in the historical financial statement.

Additionally, in the supporting documentation we reviewed, CVLAS did not allocate attorneys' fees in proportion to the allocation of staff hours devoted to each case. Our analysis of the general ledger revealed that CVLAS received $17,753 in attorneys' fees, associated with three cases, during the scope of the audit. We tested allocation of attorneys' fees, totaling $16,000, associated with one of the cases. As of the conclusion of our testwork, CVLAS had not allocated the attorneys' fees by funding source in their case management system.

[1] CVLAS received rental income from Legal Aid Justice Center (LAJC) and James House totaling $12,825 from 1/1/2017 to 12/31/2017 and totaling $2,445 from 1/1/2018 to 3/26/2018.

According to the Executive Director, in October 2017, the grantee replaced the case management system in which attorneys' hours were tracked. He explained that in the old system, allocation of staff time defaulted to general funding. He noted that this had been fixed to require allocation of attorneys' time by case within the new automated system However, in testwork, we found that the attorneys' fees associated with the case had not been allocated by funding source within the case management system.

Per the Fiscal Administrator, the case was not closed and CVLAS management was trying to determine how to allocate the time for the case.

We reviewed the recipient's audited financial statements for the fiscal year-end 2016 prior to issuance of this report and noted the attorneys' fees were fully allocated to LSC. However, we were unable to fully test rental income and attorneys' fees during our fieldwork, covering the period of January 1, 2017 to March 26, 2018 or the audit scope reviewed. While we were able to determine that attorneys' fees were fully allocated to LSC for fiscal year 2016, it was not possible, given the supporting documentation available at the time of our audit, to observe the allocation methodology within the audit scope reviewed.

In addition, we were unable to determine how rental income was allocated because the allocations had not yet been performed at the time of our fieldwork, and the audited financial statements for fiscal year-end for 2017 were not complete at the time of our visit.

Furthermore, we could not rely on the information relating to derivative income during this audit, including the following:

- CVLAS receives rental income from Legal Aid Justice Center (LAJC) and James House. However, the agreed upon rental rate was not included for James House and no rental agreement was obtained for LAJC.
- The rental income[2] was not recorded in a specific class or funding code within the general ledger.
- The allocation for the rental income and attorneys' fees had not been performed as of the time of our fieldwork.
- A funding source was not included within the case management system in relation to attorneys' fees.

The items mentioned above presented an impairment in creating an unacceptable risk that could lead to incorrect or improper conclusions over the allocation of derivative income, rental income and attorneys' fees.

[2] According to the general ledger we reviewed within our audit scope of 1/1/2017 to 3/26/2018; Legal Aid Justice Center (LAJC) paid a monthly rent of $750 in January 2017 to March 2017 and $772 from April 2017 to March 2018. James House paid a monthly rent of $300 from January 2017 to March 2018.

LSC regulation 45 CFR §1630.17 states that derivative income resulting from an activity supported in whole or in part with funds provided by LSC shall be allocated to the fund in which the grantee's LSC grant is recorded, in the same proportion that the amount of the LSC funds expended bears to the total amount expended by the grantee to support the activity. Properly allocating derivative income results in fair allocation of derivative income back to appropriate funding sources.

The Executive Director should:

Recommendation 5: ensure that allocations are performed for rental income pursuant to 45 CFR § 1630.17 and in accordance with the written procedures in CVLAS Accounting Manual; any deviation should be documented on file.

Recommendation 6: assign the corresponding funding source within the case management system and ensure that the requirements of 45 CFR § 1609.4(b) are fully implemented.

PAYROLL[3]

CVLAS' payroll is outsourced through Ceridian[4], a payroll processing company, and is processed in semi-monthly pay periods (i.e., twice a month and not bi-weekly). CVLAS employees work an average of 8 hours per day in a 40-hour work week. Ceridian's payroll system is programmed so that each pay period totals 86.67 hours. Employees use a paper-based timesheet to record their time. The Executive Assistant enters the employees' hours into Ceridian's online payroll processing system. The Fiscal Administrator subsequently reviews the entries and a report generated from Ceridian prior to processing.

We reviewed the grantee's payroll process and non-statistically selected payroll records comprised of timesheets and payroll registers. We reviewed the payroll records for all employees who received payment in these four pay periods: January 15, January 31, February 15, and February 28, 2018. All CVLAS employees in the four pay periods reviewed are salaried employees.

Our testwork revealed several internal control weaknesses including:

- inaccurate data entry of employees' hours;
- missing approvals and missing timesheets on file; and
- inadequate approval, awarding, and tracking of timesheets and compensatory time.

[3] Our review of the grantee's payroll processes covered the scope period, however, based on the pervasiveness of the findings mentioned, CVLAS should extend its review for corrective action beyond the audit period of January 1, 2017 to March 26, 2018.

[4] Ceridian is a payroll processing company which has an online based payroll processing system.

Inaccurate Data Entry of Employees' Hours

We found the Executive Assistant made errors entering manual timesheet data into Ceridian's online based payroll system, resulting in discrepancies between the hours recorded in employees' timesheets and the payroll register. For instance, an employee was paid for 62.27 hours worked and 24 hours for holiday and leave; however, the employee's manual timesheet showed that the employee worked two hours and claimed a combined total of 86 hours of compensatory time, holiday and leave. Additionally, the hours for compensatory time were not recorded in the payroll register; (this topic is separately discussed under the "*Inadequate Approval and Compensatory Time*" section below).

Inaccurate Calculation

We recalculated 96 semi-annual payroll payments (24 for 1/15/18 and 1/31/18; 23 for 2/15/18, and 25 for 2/28/18) by multiplying each employees' salary rate by the hours recorded within their manual timesheets. As a result, the following are the discrepancies found in the four pay periods reviewed:

Table 1: Summary of Payroll Overpayments

Table 1: Summary of Payroll Overpayments											
	1/15/2018		1/31/2018		2/15/2018		2/28/2018		Total		
	Regular	Leave/Holiday	Regular	Leave/Holiday	Regular	Leave/Holiday	Regular	Leave/Holiday	Regular	Leave/Holiday	Overall
Number of Employees	4	1	5	9	-	-	12	2	21	12	33
Number of Hours	92	3	73	113	-	-	11	7	176	123	299
Equivalent Dollar Amount Based on Salary	$2,665	$146	$1,247	$134	$-	$-	$202	$482	$4,114	$762	$4,876

Table 2: Summary of Payroll Underpayments

	Table 2: Summary of Payroll Underpayments										
	1/15/2018		1/31/2018		2/15/2018		2/28/2018		Total		
	Regular	Leave/Holiday	Regular	Leave/Holiday	Regular	Leave/Holiday	Regular	Leave/Holiday	Regular	Leave/Holiday	Overall
Number of Employees	17	5	13	-	23	9	5	6	58	20	78
Number of Hours	33	108	103	-	56	74	2	37	194	219	413
Equivalent Dollar Amount Based on Salary	$1,040	$3,172	$3,253	$-	$1,568	$2,065	$68	$1,048	$5,929	$6,285	$12,214

The Executive Assistant explained that she made data entry errors in processing payroll time entries. In addition to the data entry errors, she also explained that compensatory time, birthday leave, and floating holidays were not recorded in the payroll register.

The LSC Accounting Guide 3-4 stipulates that each recipient must have adequately trained accounting personnel to properly document, record, account for, and report financial transactions. In addition, the LSC Accounting Guide 3.5.5 stipulates that "an attendance record, including…leave and compensatory time shall be maintained for each employee".

Inadequate records and assigning a non-accountant, or inadequately trained personnel to perform payroll duties may result in inaccurate attendance and time records. It could result in an employee receiving unauthorized leave and payments, as evidenced in our fieldwork.

Since the payroll overpayment and underpayment discrepancies may extend beyond the samples reviewed, the OIG will refer this issue and related recommendations to LSC management for further review and action.

Missing Timesheets and Approvals

Our review of timesheet records revealed that 11 timesheets with a combined total of 857 hours, equivalent to $18,478 were not on file in the four pay periods reviewed. Also,

seven timesheets with a combined total of 520 hours, equivalent to $16,208 were not properly approved with a supervisor's signature.

Per the Fiscal Administrator, the timesheets were not maintained on file because they were from terminated employees' last paychecks. Regarding the missing approvals, the Executive Director was unsure why the timesheets were missing supervisor's signatures.

The LSC Accounting Guide 3.5.5 stipulates that an attendance record or time record shall be maintained for each employee and shall be approved by the employees' supervisor. Without proper approval and adequate attendance record on file, an employee may be paid for days or hours not worked.

Inadequate Approval, Awarding, and Tracking of Compensatory Time

Our test work revealed that the grantee is not following its own policy over compensatory time. The CVLAS Personnel Manual stipulates that compensatory time off may be awarded to exempt employees who work greater than 45 hours in a given week. Compensatory time off must be approved in advance by the Executive Director, Program Administrator, or Director of Virginia Farm Workers.

In addition, the payroll register does not include time accrued, time taken, and available balances for compensatory time. The grantee tracks compensatory time by referring to the employee's previous timesheets. Several discrepancies were found as follows:

- Six employees were awarded compensatory time but had no record of advance approval from the Executive Director, Program Administrator, Director of Virginia Farm Workers.
- Four employees did not work more than 45 hours in a week but were awarded compensatory time.
- Four employees had errors in their available balance of compensatory time.

The Executive Director explained that compensatory time is tracked by referring to previous timesheets and the signature in the timesheets reflects the approval for compensatory time.

The LSC Accounting Guide 3.5.5 stipulates that a record of vacation and sick leave time as well as overtime/compensatory time shall be maintained for each employee. It should include time accrued, taken and the available balance.

Inadequate approval processes, documentation, and deviating from policies over compensatory time may result in an employee receiving unauthorized leave.

The Executive Director should:

Recommendation 7: ensure that an accurate and complete attendance record (i.e., timesheet) is maintained for each employee and for each pay period.

Recommendation 8: conduct a detailed review of all payroll processed in 2018 and 2019 to identify payroll over and underpayments and complete this review within six months of the issuance of this report.

Recommendation 9: to the extent consistent with the law, reimburse employees that were identified as underpaid and attempt to recover payment from all employees that were identified as overpaid in the above review.

Recommendation 10: ensure that employees assigned with payroll duties receive the appropriate training to ensure that payroll is accurately documented, recorded, processed, and reported.

Recommendation 11: ensure that attendance records such as timesheets for all employees are approved by the employee's supervisor and documented on file.

Recommendation 12: ensure that advance approvals for compensatory time are adequately documented to reflect that the request was made prior to an employee performing overtime duties.

Recommendation 13: ensure that compensatory time is only awarded to employees who work more than 45 hours in a given week per the CVLAS Personnel Manual.

Recommendation 14: establish a formal tracking system to record employees' compensatory time earned, used, and remaining balances.

Recommendation 15: ensure that compensatory time is accurately recorded in the payroll system, in the corresponding payroll register, and subsequently reported on the employee's pay stub.

CREDIT CARDS

CVLAS maintained one credit card account, used jointly by five credit card users. The account had a credit line of $15,000. Each authorized credit card user held a sub-account, with a unique credit card number and monthly spending cap.

Cardholder's Position	Office Location	Monthly Spending Cap
Executive Director	Richmond	$6,500
Office Manager 1	Petersburg	$2,000
Senior Managing Attorney	Charlottesville	$2,000
Office Manager 2	Richmond	$3,000
Director of Litigation	Richmond	$1,500

We judgmentally selected and reviewed 90 credit card transactions totaling $12,002 from all five sub-accounts to determine whether the grantee had adequate internal controls over credit cards and whether the grantee's practices were compliant with written policies and procedures.

Our testwork revealed several internal control weaknesses including:

- LSC unallowable costs and missing supporting documentation
- Lack of credit card approvals
- Use of credit cards by unauthorized individuals
- Lack of credit card user acknowledgement agreements

Due to the scope limitation in cost allocation we were not able to obtain sufficient accounting system documentation to assess CVLAS' compliance with LSC regulations and guidelines, specifically whether the 90 credit card transactions reviewed were allocated to the correct funding source and if these transactions were allocated to LSC.

LSC Unallowable Costs and Missing Supporting Documentation (Repeat Finding)

As a result of our review of 90 credit card transaction totaling $12,002 we found the following:

- Forty-seven of 90 credit card transactions totaling $7,279 did not have supporting documentation such as receipts or invoices.
- Two of 90 credit card transactions totaling $155 were LSC unallowable transactions of a late payment fee and a purchase from an outdoor apparel and equipment store.
- Two of 90 credit card transactions totaling $121, were both LSC unallowable transactions of flower purchases and did not include supporting documentation such as receipts or invoices.

Moreover, in the previous ICR Report No. AU 13-07 dated September 2013, we also noted missing documentation to support credit card transactions.

Pertaining to the LSC unallowable transactions; the grantee stated that none of them were charged or allocated to LSC. However, the grantee did not use a funding code within the financial software to identify funding charged for the LSC unallowable transactions. Also, due to the scope limitation in cost allocation, we were not able to verify that the LSC unallowable transactions were charged to funding sources other than LSC.

The Program Letter 17-1 and 45 CFR § 1630 stipulates that expenditures by a recipient are allowable under the recipient's LSC grant only if the recipient can demonstrate that the cost was, among other things, reasonable and necessary for the performance of the grant and allocable to the grant. In addition, the LSC Accounting Guide 2-5 stipulates that "…accounting records should be maintained on an automated system." Each grantee should establish the system most appropriate to its needs and provide an adequate audit trail for all transactions. Failure to provide an adequate audit trail for LSC unallowable costs increases the risk that improper allocations of LSC funds go undetected.

Pertaining to the transactions with missing supporting documentation; the Executive Director stated that they did not fully maintain documentation as there was a degree of trust accorded to the credit card users. He also stated that both he and the Fiscal Administrator monitored the credit card accounts online to detect impermissible usage.

The LSC Accounting Guide 3-5.4 stipulates that receipts of goods and accuracy of invoices should be verified and documented. The CVLAS Accounting Manual also stipulates that credit card users must forward receipts for purchases to the Fiscal Administrator before the bill is paid. Without adequate documentation, credit cards may be subject to unauthorized transactions, fraud, and abuse.

The 51 credit card transactions, totaling $7,555 will be questioned pursuant to the definition of questioned cost per 45 CFR § 1630.2(f)(1) and (2). As such, $7,555 will be referred to LSC management for review and action due to the following:

- LSC unallowable costs, per 45 CFR § 1630.5(a)(2)
- lack of supporting documentation, per 45 CFR § 1630.5(a)(8) and
- lack of sufficient accounting system documentation of expense allocations to determine the funding source, per 45 CFR § 1630.5(c)(3).

The OIG was unable to verify whether the unallowable and unsupported transactions were allocated to LSC due to the lack of sufficient accounting system documentation of expense allocation as a result of scope limitation in cost allocation.

Lack of Approvals and Unauthorized Credit Card Users

Our review found that CVLAS had weak practices over credit card processes. In particular, ten of 90 credit card transactions reviewed had no documentation of approvals. We also found that credit cards were being shared among other staff. For instance, the grantee provided a credit card sheet log from the Charlottesville office reflecting that the credit card issued to the Senior Managing Attorney was being shared with other employees who were not authorized credit card users.

The Executive Director stated they did not fully maintain documentation approvals due to the degree of trust accorded to the credit card users. He also stated that both he and the Fiscal Administrator monitored the credit card accounts online to detect impermissible usage. The Executive Director and Fiscal Administrator further explained that in the Richmond and Charlottesville offices, staff other than authorized users can make purchases.

The LSC Accounting Guide 3-5.4 requires approvals from an appropriate level of management before a commitment of resources is made. The CVLAS Accounting Manual states that only those people specifically authorized by the Executive Director will have access to a Credit Card. Holders of Credit Cards are to be (1) Executive Director, (2) Petersburg Office Manager, (3) Charlottesville Senior Managing Attorney, (4) Richmond Office Manager and (5) Director of Litigation. Furthermore, the credit card issued to the Steve Dickinson, Executive Director is used as the office card. This card is used only with prior permission from the Director and provided to either the Administrative Assistant or Fiscal Manager.

Failure to document and follow the purchase approval process and sharing credit card information may result in purchases made without the knowledge of management and may subject the grantee to fraud and abuse.

User Acknowledgement Agreements Not in Use

There was no indication that CVLAS credit card users had read, signed, or agreed to the terms of the CVLAS Credit Card Use Policy. A signed credit card user acknowledgement agreement is a form established for an authorized card user to accept and abide by the grantee's policies and procedures governing the usage of credit cards.

The Executive Director stated that the authorized credit card users were lawyers and other knowledgeable and trusted individuals who understood the policies and procedures and that a User Acknowledgement Form had not been necessary.

Appendix VII of the LSC Accounting Guide recommends that controls over credit cards include policies for employees to review and sign.

The lack of a signed user acknowledgment agreement may result in confusion regarding the initiation, approval, and use of credit cards.

The Executive Director should:

Recommendation 16: ensure that LSC unallowable costs are charged to funding sources other than LSC and reflected within the financial software to provide an audit trail.

Recommendation 17: ensure that supporting documentation, including receipts and invoices, are maintained for each transaction to fully support all credit card purchases.

Recommendation 18: ensure the purchase approval process is followed and appropriate approvals are obtained for each requisite transaction. These approvals should be documented and maintained on file.

Recommendation 19: ensure that credit cards are not being shared and only those individuals specifically named as authorized credit card users in the CVLAS Accounting Manual have access to a CVLAS credit card.

Recommendation 20: require a signed user acknowledgement agreement for each authorized credit card user. The form should include repayment terms and conditions for personal use or misuse of the card and be documented on file.

DISBURSEMENTS

The OIG reviewed CVLAS' current written policies and procedures over disbursements and found they are mostly comparable to the *Fundamental Criteria* in the LSC Accounting Guide. We judgmentally selected 90 disbursements totaling $266,994 to determine whether the grantee has adequate internal controls over disbursements and whether the grantee's practices are compliant with the written policies and procedures. The selected disbursements included unusual vendors, large payment amounts, frequent payments, potentially unallowable costs, bar dues, rent, employee reimbursements, acquisitions of office supplies, and other assets.

We noted that due to the scope limitation in cost allocation we were not able to obtain sufficient accounting system documentation supporting CVLAS' compliance with LSC regulations and guidelines, specifically whether the 90 disbursements transactions reviewed were allocated to the correct funding source and if these transactions were allocated to LSC.

As a result of our testwork, we noted that overall there were seven inadequacies found over the disbursements process totaling $12,360, out of which, two totaling $305 were both inadequately approved and inadequately supported.

Inadequately Approved Disbursements (Repeat Finding)

Our testwork revealed that four out of 90 disbursements totaling $10,297 were inadequately approved as follows:

- One disbursement for an insurance payment totaling $7,880 was supported with an invoice. However, there was no indication of a review and approval prior to disbursement.
- One disbursement for a copier service totaling $2,112 was supported with two invoices. However, one of the invoices had no indication of review and approval prior to disbursement.
- Two disbursements for cleaning services totaling $305, included emails between staff regarding the amount to be paid. However, there was no indication of a review and approval prior to disbursement.

This is a repeat finding as in the previous ICR Report No. AU 13-07 dated September 2013, we noted some disbursements lacked requisite approvals.

The lack of documented approvals was attributable to a management oversight. The Executive Director explained that he is responsible for reviewing and initialing the batch of weekly invoices and most likely missed some invoices during the review process.

The LSC Accounting Guide 3-5.4 stipulates that approval should be required at an appropriate level of management before a commitment of resources is made. Without adequate documentation of an approval process, purchases may be made without the knowledge of appropriate management or at unacceptable prices or terms.

Inadequately Supported Disbursements

Our testwork revealed that five out of 90 disbursements totaling $2,368 were inadequately supported as follows:

- Two disbursements, one for cleaning service totaling $750 and the other for health club dues totaling $600 only included invoices from prior months. We also noted that the invoices attached were overstated with handwritten revisions to increase the amount of the invoice.
- Two disbursements for cleaning services totaling $305 included emails between staff regarding the amount to be paid. However, no invoice was included to support the payment prior to disbursement.

- One disbursement for an employee reimbursement due to a payroll deduction error totaling $713 included a note on the check stating that it was a reimbursement for a payroll deduction error. However, the disbursement did not include support for the payroll deduction error.

According to the grantee, the transactions with no invoices were a result of informal and on-demand services initiated via email or advance payments that were anticipated in case the invoices would not be received on-time.

The LSC Accounting Guide 3-5.4 stipulates that the receipt of goods and the accuracy of invoices should be verified and documented. Without adequate support and internal verification, cash may be disbursed for goods and services not received, in advance of receipt, or in the wrong amount.

The Executive Director should:

Recommendation 21: ensure that review and approval processes are adequately documented with signature and date prior to disbursements.

Recommendation 22: ensure that disbursements are not made without adequate documentation and internal verification of receipt of goods and accuracy of invoices.

GENERAL LEDGER AND FINANCIAL CONTROLS

Terminated Employees Maintained User Rights in Accounting System

Our review of the user access report, obtained from the grantee's accounting system, found that two former CVLAS employees retained access rights to the accounting system. These users held the same usage rights as the current Fiscal Administrator.

The Executive Director stated he was unaware the former employees still retained user accounts in the system.

The LSC Accounting Guide 3-6 stipulates that the grantee should assign permissions and authorizations deliberately and only as needed and that old users should be deleted from the system immediately. Maintaining terminated employees in the accounting system may heighten the risk of fraud.

In addition, the LSC OIG fraud corner article states a best practice for employee termination procedures is for management to revoke all remote and on-site access immediately after an employee departs, and that management should have termination policies and procedures that instruct how to revoke remote and physical access by recently departed employees.[5]

[5] https://oig.lsc.gov/products/investigative-results-and-guidance/the-fraud-corner/60-products/the-fraud-corner/301-best-practices-for-preventing-and-detecting-insider-threats

Users Sharing Account Access

The Fiscal Administrator of CVLAS stated that once a year she signs in to the accounting system and gives her computer to an office manager from another office to perform an account reconciliation.

The Executive Director stated that he thought that the license for QuickBooks prohibited them from making additional user accounts, so he had not set up an account for the office manager.

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

Sharing of user names and passwords widens the potential for unauthorized access, fraud and can obscure the audit trail of the accounting system.

Untimely Bank Reconciliations

CVLAS had 9 active bank accounts during the time under audit. These accounts included one operating account, four checking accounts, three client trust accounts, and a payroll account. From each of these accounts we judgmentally selected and reviewed a total of 36 bank reconciliations. We found that 21 of those sampled were not performed in a timely manner.

- Ten of 16 checking account reconciliations were performed between 27 and 276 days after the statement closing date.
- Nine of 12 client trust account reconciliations were performed between 27 and 276 days after the statement closing date.
- Two of 4 payroll account reconciliations were performed between 37 and 89 days after the statement closing date.

The CVLAS Fiscal Administrator stated that the lateness of the reconciliations was due to a variety of time management challenges. Furthermore, she stated there were no other qualified individuals who could perform the reconciliations in the office. The Executive Director stated he was not aware of the need to date his approvals.

The LSC Accounting Guide 3-5.2(d) states that bank statements shall be reconciled monthly to the general ledger by a person who has no access to cash, who is not a regular check signer, and has no cash bookkeeping duties. The reconciliation shall be reviewed and approved by a responsible individual. Such review shall be appropriately documented by signature and date. The CVLAS Accounting Manual states that bank statements will be reconciled no later than 15 days after receipt.

Proper reconciliation procedures substantially increase the likelihood of discovering irregular disbursements and recording errors on a timely basis.

Lack of Approvals on Petty Cash Reconciliation Forms

CVLAS maintained petty cash accounts at two of their three offices. The Petersburg office maintained a maximum petty cash balance of $50. The petty cash account in the Richmond office had a maximum allowed amount of $100.

During our review, we found no discrepancies with the Charlottesville and Richmond offices' petty cash accounts. However, we found two petty cash reconciliation forms from the Petersburg office that had not been properly reviewed. The first reconciliation form had no signed approvals. On the second form, the same employee indicated they had both prepared and approved the reconciliation.

The Fiscal Administrator stated that the employee signing their own approval was a mistake. She stated that she approved the petty cash reconciliation by issuing a check to reimburse the account following her review.

The LSC Accounting Guide 3-5.4 stipulates that a responsible individual should review and approve reconciliations and document the reviews with a signature and date.

Proper reconciliation procedures may increase the likelihood of the discovery of irregular disbursements and recording errors. Segregation of duties between the authorization and recording functions provides a means to prevent and detect errors and misappropriation.

Recommendations: The Executive Director should:

Recommendation 23: remove accounting system access from anyone who is not a current authorized user of the CVLAS accounting system. The Executive Director should also implement a policy whereupon user access to the accounting system is immediately removed upon the termination or transfer of an authorized user.

Recommendation 24: ensure that anyone who accesses the accounting system has their own unique username and password. The Executive Director should limit user privileges to ensure that users have access only to those functions pertinent to their duties.

Recommendation 25: ensure that authorized individuals perform bank reconciliations monthly and no later than 15 working days after receipt of the statement per CVLAS Accounting Manual.

Recommendation 26: ensure bank reconciliations are reviewed and approved by a responsible individual including signature and date by the preparer and approver.

Recommendation 27: ensure the Fiscal Administrator signs and dates their approval of petty cash reconciliations on the reconciliation form.

CONTRACTING

Unsupported and Missing Contracts

We judgmentally selected eight contracts totaling $91,539 within the audit period reviewed. The eight contracts were comprised of the following services: payroll, audit and financial reporting, information technology (IT), telephone system, case management system, facilities' security system and two janitorial services. One janitorial service was for the Richmond office and the other was for the Petersburg office.

However, the grantee could not locate three of the eight contracts totaling $41,879. These contracts were for the payroll processing, IT and janitorial services for the Richmond office. In addition, we noted that no invoices were found for the 11 payments made for the janitorial service in 2017.

Inadequate Documentation and Approval

The grantee was able to provide five of the eight contracts totaling $49,660 for the following services: Independent Public Accountant (IPA) for audit and financial reporting, telephone system, case management system, facility security system and the janitorial service for the Petersburg office. However, we found the following discrepancies as a result of our testwork:

- The facility security system's contract was established in 2002 at a rate of $40 per month for five years, after which, the agreement automatically renewed in terms of one year until either party dissolved the agreement. The contract allowed for increases in the monthly fee. The OIG could not verify what the terms were during the scope because the contract on file was outdated.
- The janitorial contract for the Petersburg office was established in 2014 at a rate of $250 per month. The contract agreement was in effect for one year upon signing by both parties. No addendum or renewal was provided to OIG. Also, according to the check register, the grantee has been paying an increased rate of $375 per month. We could not verify the new rate because there was no active contract on file for the vendor.
- The contract for the IPA was neither properly approved nor signed by the Executive Director or appropriate management.
- In addition to the discrepancies mentioned above, we found that two of the eight contracts were sole-sourced. However, there was no documentation of sole source justification on file. A sole-source contract is a contract established without competitive bidding. These contracts were for the IPA and the facility security system service.

We also found that the contact for the case management system service was competitively bid, however, the selection process was not documented. The services

acquired for payroll, IT, telephone system, and two of the janitorial services should have also been subject to competitive bidding. However, there were no bids documented on file.

According to the Executive Director the contracts for payroll and IT were not on file because they were established prior to his tenure. He also explained that there was no contract established for Richmond office's janitorial service because the services were required on an as-needed basis. In addition, there may be an addendum for the expired contracts, but we were not provided this at the time of the audit. The Executive Director stated that given the amount of paperwork he reviews and signs daily, he may have mistakenly failed to sign the contract for the IPA. Lastly, the competitive bids were not provided for the telephone service because the contract was retained by an outsourced IT company for CVLAS.

The LSC Accounting Guide 3-5.4 states that the receipt of goods and the accuracy of invoices should be verified and documented. Also, the LSC Accounting Guide 3-5.16 states that the process used for each contract action should be fully documented and the documentation maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that deliverables are completed.

Without proper documentation of contract agreements and approvals, the grantee may be subjected to improper contracting actions and questioned cost proceedings.

Recommendation 28: The Executive Director should ensure that CVLAS complies with the requirements of the LSC Accounting Guide 3-5.16 and ensure that contracts and invoices are received, documented, approved and verified prior to payment.

FIXED ASSETS

Inadequate Fixed Asset Practices (Repeat Finding)

We reviewed CVLAS' written policies and procedures related to fixed assets and found that they were comparable to the LSC Accounting Guide with respect to inventorying and tagging of fixed assets, as well as the maintenance of a detailed property record.

However, the grantee's practices were not in alignment with their written policies and procedures. The grantee did not record all the elements of the property record required by the LSC Accounting Guide. The property record did not contain the following elements:

- date acquired
- check number
- original cost
- funding source

- estimated life
- fair value (if donated)
- method of valuation (if donated)
- salvage value

Additionally, the property record was not updated to reflect disposal or acquisition of new items; and assets with a cost or value of $200 or over were not always being tagged, as stipulated by the grantee's written policies. Because of these deficiencies, the physical inventory could not be reconciled to the accounting records. This is a repeat finding as in the previous ICR Report No. AU 13-07 dated September 2013, we noted that inventory results were not being reconciled to the accounting records.

The Executive Director stated that he had not reviewed the property listing in recent years and was unaware of the deficiencies. The employee responsible for the inventory and tagging of fixed assets as well as the maintenance of the property record stated that she did not realize this information was necessary and had developed her own tagging and recording system.

The LSC Accounting Guide 3-5.4(c) stipulates that the property record should include: description of property, date acquired, check number, original cost, fair value (if donated), method of valuation (if donated), salvage value (if any), funding source, estimated life, depreciation method, identification number and location. The property subsidiary must agree with the general ledger property accounts.

The CVLAS Accounting Manual states that purchased or donated assets with a cost or value of $200 [6]or over should be tagged, inventoried, and added to the fixed asset records with information including the manufacturer, model number, serial number, cost, funding source, location, and useful life.

The Executive Director should:

Recommendation 29: ensure property records contain all elements required by the LSC Accounting Guide 3-5.4(c) as mentioned above and that all employees involved in performing inventories and maintaining the property record are knowledgeable of the relevant policies.

Recommendation 30: ensure that all applicable fixed assets with a cost or value of $200 or over should be tagged, inventoried, and added to the fixed asset records according to CVLAS policy.

[6] LSC's *Fundamental Criteria* states that "for financial statement purposes, grantees must capitalize and depreciate all non-expandable items with a cost in excess of $5,000 and a useful life of more than one year; recipients have the discretion to capitalize items with a lower value". However, since CVLAS has chosen a lesser amount of $200, OIG held them to the criteria they had in place.

EMPLOYEE BENEFITS

CVLAS written policies and procedures for employee benefits are comparable to LSC's *Fundamental Criteria*. To determine whether adequate controls exist over employee benefits and whether benefits adhere to LSC regulations and guidelines, we reviewed the grantee's personnel records and salary advances awarded within the audit period of January 1, 2017 to March 26, 2018. We judgmentally selected a total of six salary advances totaling $9,190. Our review noted the following:

Inadequate Approval and Documentation over Salary Advance

The salary advance requests from four employees were supported with the Executive Director's approval. However, two of the Executive Director's salary advance requests had no documentation of approval from the Board of Directors. In addition, all six salary advance requests had no signed acknowledgement agreement to document that the employee agreed with the grantee's salary repayment terms and conditions.

The Fiscal Administrator explained that she is new to the Human Resource role and she is still learning and making progress in the new position. The Executive Director explained that his salary advances were due to emergency situations and he did not have the chance to involve a Board Member to request an approval.

The LSC Accounting Guide 3-5.4 stipulates that approval should be required at an appropriate level of management before a commitment of resources is made. In addition, Program Letter 08-02 stipulates that while providing salary advances is not prohibited, if grantees choose to do so, it is important that there are written policies and procedures in place governing such advances and timely repayments.

Salary advances provided to employees without a formal signed agreement may cause misunderstandings with the repayment terms and conditions. Also, documentation of advance agreement is necessary to protect the grantee should an employee allege improper payroll deductions. Failure to obtain proper approval of employee advances may result in uncollectible advances.

The Executive Director should:

Recommendation 31: ensure a board member is involved in the review and approval process of the Executive Director's salary advance requests with documentation maintained on file.

Recommendation 32: ensure that staff understand the agreed upon terms and conditions of a specific salary advance and the agreement is documented.

INTERNAL REPORTING AND BUDGETING

Audit and Finance Committee Minutes

While CVLAS has an Audit and Finance Committee, this Committee does not keep minutes of its meetings. According to the Executive Director, the Committee meetings are held primarily to discuss the yearly budget and review the CVLAS' financial statement audit. While quarterly financial reports are reviewed at the quarterly Board of Directors' meetings, the Committee does not review the financial reports separately. CVLAS' Executive Director was unsure why there are no minutes for the meetings.

The LSC Accounting Guide 3-5.2(b) states the governing body shall have policies defining appropriate parameters for fundamental financial decisions. All financial decisions within these parameters should be recorded in the minutes. Appropriate parameters should be sufficient to ensure that financial operations are discharged adequately. Lack of documentation of the minutes results in inadequate documentation of financial decisions made by the Audit and Finance Committee.

Budgets Not According to Funding Sources

Our review of the grantee's budget reports and procedures found that the grantee prepares overall budgets based on historical data. The grantee does not budget projections based on class or funding sources. According to the Fiscal Administrator, some of the grants have a budget that is submitted to the grantor while other grants are small with limited funding.

The LSC Accounting Guide 3-5.11 stipulates that budget projections should be built from cost centers/functions. Projections made centrally without adequate input from the cost center manager may result in incomplete information and a distortion of the projected financial condition of the recipient.

The Executive Director should:

Recommendation 33: ensure that the Audit and Finance Committee record financial decisions and approvals made by the governing body in accordance with the LSC Accounting Guide, Section 3-5.2(b).

Recommendation 34: ensure budgets are built from cost centers or funding sources each year to identify details necessary for proper analysis and control of program spending.

WRITTEN POLICIES AND PROCEDURES

The OIG reviewed CVLAS Accounting Manual for cost allocation, derivative income, disbursements, credit cards, contracting, fixed assets, payroll, employee benefits, general ledger and financial controls, and internal reporting and budgeting. While derivative income, disbursements, employee benefits, general ledger and financial controls, and

internal reporting and budgeting included acceptable written procedures, other areas need to be enhanced, including:

AREA	CONDITION	EFFECT	CRITERIA
Cost Allocation	The cost allocation policy did not describe the allocation methodology for LSC unallowable costs.	Without detailed procedures for allocating LSC funds for unallowable expenses, there is an increased risk that LSC grant monies may be used to fund unallowable expenses.	The LSC Program Letter 17-1 stipulates that grantees should confirm that the policies and procedures are in place to ensure that LSC funds are only used for costs that are "reasonable and necessary for the performance of the grant or contract."
Credit Cards	The credit card policy lacked details regarding prohibiting cash advances and ATM withdrawals, as well as the deauthorization process when authorized credit card users are terminated or transferred.	Without adequate credit card policies in place, it is more likely that credit cards will be misused, whether accidentally or intentionally.	Refer to Appendix VII Section G3 of the LSC Accounting Guide, proper internal controls over credit cards include prohibiting personal use, disallowing cash advances and ATM withdrawals; also denying access to credit cards for employees terminated.
Contracting	The contracting policy did not include detailed procedures for various types of contracts, dollar thresholds, and competition requirements.	Contracting is a high-risk area for potential abuse. Without an adequate written contracting policy for all types of contracts, contracts may lack proper documentation and approval.	Refer to 3-5.16 of LSC's *Fundamental Criteria*, management should identify contracting procedures for the various types of contracts, dollar thresholds, and competition requirements.
Fixed Assets	The Federal regulation concerning LSC property and equipment management was updated and revised during the scope of our audit. The fixed assets policy should be updated to reflect the recent implementation of 45 CFR Part 1631.	Without detailed written policies regarding fixed assets, there is limited assurance that the grantee's management has provided guidance to staff to properly safeguard property.	Per 45 CFR §1631.1, the purpose of this part is to set standards for purchasing, leasing, using, and disposing of LSC-funded personal property and real estate and using LSC funds to contract for services.
Payroll	The payroll policy does not include that time and attendance require supervisory review and approval prior to payroll processing.	Timesheets processed without a supervisor's approval may cause a payment to an employee for days or hours not worked.	Per 3.5.5 of the LSC Accounting Guide, an attendance or time record shall be maintained for each employee and shall be approved by the employees' supervisor.

The Executive Director explained they were still working on improving current practices and procedures. He faced several time constraints while updating the CVLAS Accounting

Manual and consequently did not include some procedures. The Executive Director further stated he was unaware of the updated regulation that superseded the Property Acquisition and Management Manual. He added he is open to updating the manual to reflect the practices in place.

The Fiscal Administrator stated that users were aware of the prohibition of cash advances and ATM withdrawals and that CVLAS had set the maximum withdrawal and advance amount on the cards to $1.00, as the bank did not allow a zero amount. The Fiscal Administrator also stated that while there were no policies for the deauthorization of credit card use, there were practices in place, including repossessing the card and contacting the bank to terminate the account.

The LSC Accounting Guide 3-4 states 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.*

The Executive Director should:

Recommendation 35: ensure that written policies and procedures for cost allocation, credit cards, contracting, fixed assets, and payroll are included in the grantee's Accounting Manual, adequately describe the processes and controls in sufficient detail, and are in accordance with LSC's Accounting Guide, regulations and guidelines.*,*

Recommendation 36: revise the policies in CVLAS Accounting Manual to reflect new requirements included in 45 CFR §1630 and §1631, effective December 31, 2017.

OIG SUMMARY OF GRANTEE MANAGEMENT COMMENTS

CVLAS management provided their responses to the OIG's Draft Report on October 22, 2019. CVLAS' responses are included in their entirety in Appendix II.

CVLAS management stated that they found the draft report to be well-balanced, fair, and generally accurate, with recommendations that will help them focus on areas where they need to improve and plan for the future. However, they stated that the OIG misunderstood the nature of CVLAS' records that serve as the basis for six of the OIG's recommendations for the cost allocation, credit cards, derivative income, employee benefits, general ledger and financial controls, internal reporting and budgeting and payroll audit areas.

Out of 36 recommendations, CVLAS management agreed with 29, disagreed with six (6), and expressed that they did not have enough time to address Recommendation 34.

Specifically, CVLAS disagreed with:

- Recommendation 8 and stated that they were concerned with this conclusion and undertook an immediate review of payroll records for 2016 and 2017;
- Recommendation 9 and stated that no employee has been under or overpaid, and that no reimbursements or recovery is warranted;
- Recommendation 16 and stated that at the time of the OIG audit, CVLAS personnel demonstrated that all transactions receive a funding code within the financial software, even though these funding classes do not appear in the printed general ledger;
- Recommendation 19 and stated that all authorized users of CVLAS credit cards are required to provide documentation regarding credit card use, and no one other than authorized users can use credit cards without prior permission;
- Recommendation 24 and stated that only the Fiscal Administrator and Executive Director have access to the accounting system, and that they do not share their access with any other staff. They further stated that the Fiscal Administrator signs into the accounting system and then gives her computer to an office manager to perform reconciliations, and thus, in their view, there is no sharing of passwords; and,
- Recommendation 33 and stated that CVLAS' Audit and Finance Committee does not make final financial decisions. The committee makes recommendations to the full Board which are then approved, adopted and recorded in the minutes of the full Board.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG's understanding of CVLAS' responses is that grantee management believes they provided the OIG with adequate information to satisfy our audit objectives. However, the evidence provided to the OIG, including manually prepared reports and oral descriptions of processes and procedures, was not adequate. To fulfill our audit objectives, we would have needed computer generated documentation and written policies and procedures outlining CVLAS' financial processes. We do not suggest that because evidence did not exist to fully support CVLAS' accounting practices that they were not performing these functions or performing them as described. Rather, CVLAS can enhance their accounting software reporting and incorporate more of their routine functions into their official policies and procedures. This increased documentation would formalize their procedures and allow us to have the documented audit trails required for testing and verification.

CVLAS stated that they fully cooperated with the OIG during and after the audit, provided all available documents, and advised the OIG of document requests that did not exist. The OIG did not state that CVLAS did not fully cooperate, but instead that CVLAS did not have sufficient documentation for the purposes of our audit.

Additionally, on March 30, 2018, our findings were presented to the CVLAS Executive Director and Financial Administrator during an on-site exit conference. After our concerns were raised, the Executive Director stated that CVLAS is a work in progress and acknowledged that CVLAS has much to improve upon. The OIG also contacted CVLAS on September 17th and 18th, 2019 in an attempt to discuss our audit work along with the findings and recommendations prior to issuing the draft report. After the OIG did not receive a response, the grantee was sent the draft report on September 18th. CVLAS did not acknowledge receipt of the report until October 8th, 2019 when CVLAS requested a 14-day extension to respond. CVLAS provided responses to the OIG on October 22, 2019, four days after the October 18th, 2019 deadline.

OIG Evaluation of Grantee Management Comments

The OIG acknowledges CVLAS' 22 comments that the draft report contains "notable and important misunderstandings and mistakes".

Of CVLAS' 22 specific comments:

- The OIG agrees with three of CVLAS' comments. As a result, the OIG considers the proposed actions to Recommendations 2, 5, and 33 as fully responsive and considers the recommendations to be closed. Specifically, we noted the following:
  - Recommendation 2: CVLAS stated that their Fiscal Administrator will comply with written policies concerning allocations in the accounting system and any deviation from the written policy will be documented.
  - Recommendation 5: CVLAS stated that they no longer rent out space to LAJC or to James House. However, if they rent out space in the future, written procedures will be followed and any deviation from those procedures will be documented.

- Recommendation 33: OIG accepts the additional information provided regarding the role of the Audit and Finance Committee. CVLAS' management stated that the Audit and Finance Committee does not make final financial decisions. The committee makes recommendations to the full Board which are then approved, adopted, and recorded in the Board meeting minutes. As such, this process complies with the LSC Accounting Guide, Section 3-5.2(b).

- The OIG disagrees with 19 of CVLAS' comments, which pertain to areas of the audit where the OIG identified scope limitations due to incomplete and insufficient documentation. Additionally, some of grantee management's comments pertain to sections of the audit where we concluded that general accounting practices were not adequately documented. Specifically:
  - For 10 items, CVLAS did not acknowledge inadequate documentation or lack of an audit trail;
  - For five items, CVLAS did not address our recommendations and effects;
  - For three items, CVLAS did not acknowledge the need to implement and/or review policies and procedures; and
  - For one item, CVLAS' responses from the Executive Director and Financial Administrator's interviews resulted in a discrepancy.

OIG Evaluation of Grantee Management Responses to Recommendations

The OIG considers CVLAS' comments and proposed actions to Recommendations 1, 3, 4, 6, 7, 10, 11, 12, 13, 14, 15, 17, 18, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32, 35, 36 as responsive. However, these recommendations will remain open. The following supporting documentation is requested to close these recommendations.

- Recommendation 1: The list of funding code by source or grantor generated from the accounting software that also shows allocations of indirect costs for year-end 2019, or documentation stating that the software does not have this reporting capability.
- Recommendations 3 and 4: A copy of the amended CVLAS Accounting Manual and the most recent quarterly allocation reports and the corresponding allocation journal entries generated from the accounting software.
- Recommendation 6: A list of funding codes by source or grantor generated from the case management software; including journal entries of attorneys' fees generated from the accounting software and the supporting documentation corresponding attorneys' fees generated from the case management software from September 1, 2019 to October 31, 2019.
- Recommendations 7 and 11: April and May 2020 payroll registers and corresponding timesheets with supervisor review and approval, or additional payroll documentation during the six months prior to the OIG's recommendation follow-up.
- Recommendation 10: CVLAS documentation stating that appropriate staff have received payroll training, and updated policies and procedures indicating that training is required for staff working with payroll functions.

- Recommendations 12 and 13: A copy of the revised compensatory time policy and procedures, and documentation showing compensatory time prior approvals and the corresponding timesheets and payroll register for a period determined during the OIG recommendation follow-up.
- Recommendation 14: A record of the new timekeeping report for compensatory time.
- Recommendation 15: Record or report reflecting that the payroll system has the ability to record compensatory time.
- Recommendations 17 and 18: A copy of written policies and procedures pertaining to review, approval, documentation and filing system of credit card transactions, if revised. Also, a copy of credit card statement from September 1, 2019 to October 31, 2019, documentation reflecting review, approval and supporting documentation, such as receipts and invoices.
- Recommendation 20: Provide the signed user acknowledgement agreements for each authorized user.
- Recommendations 21 and 22: Updated policies and procedures stating that disbursements are not made without adequate documentation and internal verification of receipt of goods and accuracy of invoices.
- Recommendation 23: The updated policy and documentation generated from the accounting software reflecting that the user access rights of terminated employees have been removed.
- Recommendations 25 and 26: A record of bank reconciliations performed in April and May 2020 for all CVLAS bank accounts; including documentation of review and approval.
- Recommendation 27: CVLAS policies and procedures are in place to ensure that the Fiscal Administrator signs and dates the approval of petty cash reconciliations on the reconciliation form.
- Recommendation 28: Documentation of the most recent contract service acquired; including approvals, bids, contract, and invoice.
- Recommendations 29 and 30: The amended CVLAS Accounting Manual and most recent inventory record.
- Recommendations 31 and 32: The revised CVLAS Personnel Manual and salary advance agreement form.
- Recommendations 35 and 36: The amended CVLAS Accounting Manual, reflecting policies for cost allocation, credit cards, contracting, fixed assets and payroll; the policies should incorporate the requirements in 45 CFR § 1630 and §1631, which became effective December 31, 2017.

The grantee's comments regarding Recommendations 8 and 9 are partially responsive. LSC OIG will refer these recommendations to LSC Management for resolution:

- Recommendations 8 and 9: The OIG identified discrepancies between employee's time sheets and their corresponding pay for that time period, which potentially could lead to employees being over or under paid and recommended that CVLAS review all payroll processed in 2018 and 2019 for possible discrepancies.

However, CVLAS did not review the years 2018 and 2019, and only reviewed the prior years of 2016 and 2017, thereby not addressing the OIG recommendations.

LSC OIG considers CVLAS' comments to Recommendations 16, 19, and 24 as unresponsive and will refer them to LSC Management along with questioned costs, for resolution.

- Recommendation 16: The grantee stated that the CVLAS Fiscal Administrator demonstrated that all transactions receive a funding code within the financial software, although these funding classes do not appear in the printed general ledger. We acknowledge the effort made by the Fiscal Administrator; however, we are requesting that the financial software contain the information needed to generate reporting in order produce an audit trail. For Recommendation 16, LSC OIG questioned costs related to 51 credit card transactions, totaling $7,555. The transactions were those that the OIG found were:
  - Unallowable pursuant to CFR § 1630.5(a)(2);
  - Lacked adequate supporting documentation per 45 CFR § 1630.5(a)(8); or
  - Lacked documentation sufficient to determine the funding source to which the expenses were allocated per 45 CFR § 1630.5(c)(3).
    - Pursuant to the definition of questioned cost, 45 CFR § 1630.2(f)(1) and (2), the total amount of $7,555 will be referred to LSC Management for review and action.

- Recommendation 19: The grantee did not provide documentation demonstrating that credit cards are not being shared or that only those individuals specifically named as authorized credit card users in the CVLAS Accounting Manual have access to a CVLAS credit card.

- Recommendation 24: The grantee did not provide documentation of how they ensure that everyone accessing the accounting system has a unique username and password, and that user privileges are limited to ensure users have access only to functions pertinent to their duties.

LSC OIG acknowledges that CVLAS requires additional time to respond to Recommendation 34. This Recommendation will remain open until CVLAS provides a copy of the most recent budget prepared reflecting that the budget is built from cost centers or funding source.

APPENDIX I – SCOPE AND METHODOLOGY

We conducted onsite fieldwork from March 26, 2018 through March 30, 2018. Audit work was conducted at the grantee's administrative office in Richmond, VA and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2017 through March 26, 2018.

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

- Disbursements;
- Credit Cards;
- Contracting;
- Cost Allocation;
- Derivative Income;
- General Ledger and Financial Controls;
- Internal Reporting and Budgeting;
- Fixed Assets;
- Employee Benefits; and
- Payroll.

To obtain an understanding of the internal controls over the areas listed above, we reviewed grantee policy and procedures, including manuals, memoranda, and directives setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework. Grantee 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.

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 90 disbursements totaling $266,994. The sample represented approximately 20 percent of the $1,366,711 disbursed for expenses other than payroll during the period January 1, 2017 to March 26, 2018. We reviewed invoices and vendor lists to assess the appropriateness of expenditures and then traced the expenditures to the general ledger. We evaluated the appropriateness of those expenditures based on the grant agreements, applicable laws and regulations and LSC policy guidance.

In addition to disbursements, a sample of 90 credit card transactions totaling $12,002 was judgmentally selected. 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 reporting and budgeting, general ledger and financial controls, as well as derivative income; the OIG interviewed appropriate program personnel, examined related policies and procedures, and judgmentally or non-statistically selected specific transactions to review for adequacy.

To evaluate the adequacy of the cost allocation process, we 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 judgmentally selected transactions to determine if the amounts allocated were in conformity with the documented grantee allocation process and if the transactions were properly allocated in the accounting system.

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

For the sample activities mentioned above, since they are non-statistical, we did not project our results, conclusions, or any errors identified to the population.

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 the consistency and reasonableness of data. We performed various tasks to determine the reliability of data used during our fieldwork including vouching, tracing, recalculating, and comparing data. Based on steps performed, we determined that the computer processed data was reliable and sufficient for the areas tested for purposes of this report, except for cost allocation and derivative income. The data provided for cost allocation and derivative income was not sufficiently reliable as key data elements documenting the grantee's processes were not available for review and evidence of allocation of costs was not reflected in the grantee's information systems. These impairments caused a scope limitation in the areas of cost allocation and derivative income which also affected other areas such as credit cards and disbursements as mentioned below.

The scope limitations identified while conducting the audit were due to incomplete and insufficient documentation in cost allocation and derivative income. Specifically, we were unable to trace allocations for indirect costs and rental income because indirect costs and rental income were not recorded in a specific class or funding code within the accounting software.

As a result, we were unable to conclude:

- whether derivative income was properly recorded and allocated; and
- whether the allocation methodology and formula are reasonable and in compliance with LSC regulations and guidelines.

Due to the scope limitation in cost allocation, we were also unable to determine whether the credit card and disbursements transactions reviewed were allocated to the correct funding source and if these transactions were allocated to LSC.

These limitations ultimately presented an impairment to the audit by creating an unacceptable risk that could lead to incorrect or improper conclusions of the adequacy of the grantee's internal control processes.

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. Except for the limitations noted above, the OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

APPENDIX II – GRANTEE MANAGEMENT COMMENTS

CENTRAL VIRGINIA LEGAL AID SOCIETY

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October 18, 2019

Roxanne Caruso
Office of Inspector General
Legal Service Corporation
Washington, DC

Re: Response to draft report for CVLAS

Dear Ms. Caruso,

Thank you for the draft report dated September 18, 2019 submitted by the Office of Inspector General (OIG) following your audit on Selected Internal Controls of Central Virginia Legal Aid Society (CVLAS) in late March 2018. Thank you also for the opportunity to comment on the report.

We at CVLAS found the draft report on the whole, to be well-balanced, fair, and generally accurate, with recommendations that will help our program focus on areas where we need to improve and plan for the future. We did find some notable and important misunderstandings and mistakes, however, which are described below.

The comments below are divided into two parts. The first part addresses factual mistakes or where we have a different conclusion from the report and how that affects our response to recommendations made in the report. The headings are taken from the draft report and do not reflect CVLAS' conclusions. The second part addresses each recommendation made in the report.

AUDIT FINDINGS

1. On page 2 of the draft report states "*The OIG was unable to obtain sufficient documentation to assess CVLAS' compliance with LSC regulations which resulted in a scope limitation pertaining to these two sections of the audit*" and "*...we were unable to obtain sufficient documentation...to determine whether it complied with LSC guidelines...*" Similar statements are made by OIG throughout the report. CVLAS fully cooperated with OIG auditors both during audit and post audit and provided all documents available. The implication that CVLAS intentionally or negligently failed to supply documents is false. If the documents requested did not exist, CVLAS staff advised the OIG auditors of this fact. In addition, in the first quote above, it is not clear from the surrounding sentences which *two* sections of the audit the auditors were referring to.

LSC

COST ALLOCATION

No Audit Trail of Allocations Performed

2. On page 3 of the draft report it states that *"The grantee [*CVLAS*] records and assigns direct costs to a corresponding funding source while indirect costs are left "unclassified" in the accounting system. At year end, the Independent Public Accountant (IPA) performs allocations for indirect costs using a formula the Executive Director developed."* This is partially accurate. During the year all direct costs are assigned to a funding source by hours worked. All indirect costs that are required for a specific grant are assigned to an appropriate funding source. All indirect costs prohibited by a specific grant are assigned to an alternate funding source. All other indirect costs, general office supplies for example, are left unclassified or put under general funding. At year-end, all of the unclassified indirect costs are allocated according to the formula the Executive Director developed.

Deviation from Written Policies

3. On page 3 of the draft report it states "*all unallocated indirect costs at year-end are charged only to LSC.*" This is not accurate. All unallocated indirect costs are charged across all eligible funding sources.

4. Also on page 3 of the draft report it states that *"Fifteen out of 23 employees did not record hours in the timekeeping system"* This is misleading. At the time of the audit, all CVLAS employees kept paper time records for the purpose of payroll, however, only case handlers kept time in our case management system. This was in compliance with both LSC regulations and CVLAS' written policies. Since the audit we have changed our policy and practice so that all CVLAS employees track their time through our case management system.

5. On page 4 of the draft report it states the *"The Executive Director also explained that he meets with the Fiscal Director on an as needed or quarterly basis."* In fact the Executive Director and Fiscal Administrator meet multiple times daily to discuss the allocation of funding, grant requirements and other financial matters as they arise.

Untimely Cost Allocations

6. On page 4 of the draft report it states that *"...we found that CVLAS performs allocations once a year, at year end."* As stated above, this is only partially true. During the year all direct costs are assigned to a funding source by hours worked and direct fund source expense. All indirect costs that are required for a specific grant are assigned to an appropriate funding source and all indirect costs that are prohibited by a specific grant are assigned to an alternate funding source. All other indirect costs, general office supplies for example, are left unclassified or put under general funding. At year-end, all of the unclassified indirect costs are allocated according to the formula the Executive Director developed, as described in the draft OIG report.

DERIVATIVE INCOME

Inadequate Documentation over Derivative Income Allocations

7. On page 5 of the draft report it states *"...CVLAS did not allocate attorney's fees in proportion to the allocation of staff hours devoted to each case."* and *"...CVLAS had not allocated the attorney's fees by funding source in their case management system."* and on page 6 it states *"A funding source was not included within the case management system in relation to attorneys' fees."* These statements are inaccurate. CVLAS attorneys track their time in accordance with LSC regulations and indicate on each time record the funding source affiliated with that time. If the attorney is unsure of the funding source, then the time is allocated to a "general" funding source until it can be reviewed.

8. On page 6 of the draft report it states *"In addition, we were unable to determine how rental income was allocated because the allocations had not yet been performed at the time of our fieldwork, and the audited financial statements for fiscal year-end 2017 were not complete at the time of our visit."* Prior to the OIG audit, LSC was advised that CVLAS' Independent Auditor would be in the office performing CVLAS' year-end audit during February 2018 and the final audit statement would not be available until after April 2, 2018. The Executive Director asked that OIG to postpone their audit until May 2018 so that information could be completed, but that request was denied.

PAYROLL

Inaccurate Data Entry of Employees' Hours

9. On page 8 of the draft report it states *"We found the Executive Assistant made errors entering manual timesheet data...resulting in discrepancies between the hours recorded in employees' timesheets and the payroll register."* This is not completely accurate. In an e-mail dated October 3, 2018, OIG auditor Meliza Ella asked CVLAS Executive Assistant, Jaqueline Kuhle about how time sheets reconcile with payroll records for eight employees. For two of those employees, Ms. Kuhle found that she had made a manual data entry error in recording the number of hours allotted to holidays in the payroll record. In both cases, the error did not have any impact on the employee's pay or leave records, and corrections were made. For the other employees, Ms. Kuhle determined that there were no errors. Please see the explanation below for further description of CVLAS payroll calculation.

Inaccurate Calculation

10. On page 7, 8 and 9 of the draft report OIG identifies "*payroll overpayments and underpayments*" and recommends that CVLAS recover or reimburse those payments. CVLAS was understandably concerned with this conclusion and undertook an immediate review of payroll records for 2016 and 2017. Our findings are that no one at CVLAS was overpaid or underpaid during that time period. As noted in the report and explained to the on-site auditors, CVLAS employees are paid twice a month (24 pay periods per year) and each pay check reflects 86.67 hours worked (2080 divided by 24). In contrast, the time sheets represent the number of

hours actually worked, i.e. regular hours, holiday/sick/annual leave, in the pay period. For salaried employees the time sheets do not match the payroll records because each employee is paid the same every half month but each pay period has 9, 10 or 11 actual work days. Hourly employees are paid based on actual hours worked.

In the time period OIG reviewed (1/1/18 – 2/28/18) pay checks were consistent within pennies for each employee with the rare variation where there was a salary advance or repayment of an advance. In February, 2018 there was an increase in the Federal withholding tax which resulted in slightly lower net pay, however, again, pay checks were consistent for each employee within pennies. This consistency indicates that employees were neither over nor underpaid.

In reviewing OIG's tables on overpayment and underpayment, we were unable to re-construct the formula OIG used and found several numbers that seem in error. For example, on 1/31/2018 nine employees were found to have been overpaid for 113 hours of Leave/Holiday time resulting in an equivalent dollar amount of $13. This calculates out to $1.18 per hour which does not reflect the hourly rate of any CVLAS employee. Likewise, for 2/28/2018, two employees were found to have been overpaid for seven hours of Leave/Holiday time for an equivalent dollar amount of $482. This calculates out to an average of $68.85 per hour which is well above the hourly rate of CVLAS' two highest paid employees by about $20.

In reviewing OIG's Table 2 of underpayments, it is impossible for us to determine how OIG arrived at those numbers. In that each employee was paid for 86.67 hours each pay period at a consistent hourly rate, it is unclear where OIG has found either under or overpayments.

Missing Timesheets and Approvals

11. On page 9 and 10 of the draft report it states *"Our review of timesheet records revealed that 11 timesheets...were not on file...* and *.... Per the Fiscal Administrator...the time sheets were not maintained on file because they were from terminated employees 'last paychecks.* The reason for missing timesheets stated in the report is not accurate and the Fiscal Administrator did not advise the auditors of this reason. OIG examined timesheets from January and February 2017. If timesheets were not available at the time – within 30 days of their being due- it was because those timesheets were being amended or were merely filed late. This was explained to the auditors at the time of the visit. CVLAS conducted a review of the timesheets after the audit and it was determined that all were on file.

Inadequate Approval, Awarding and Tracking of Compensatory Time

12. On page 10 of the draft report it states that "*The CVLAS Personnel Manual stipulates ... Compensatory time off must be approved in advance by the Executive Director...*" and "*Six employees were awarded compensatory time but had not record of advance approval from the Executive Director...*" The CVLAS Personnel Manual requires advance approval to use compensatory time, not to earn compensatory time. The report also states on page 10 that

according to the Executive Director, the approval signature of the timesheets *"reflects the approval for compensatory time."*

CREDIT CARDS

LSC Unallowable Costs and Missing Supporting Documentation

13. On page 12 of the draft report it states that *"Forty-seven of 90 credit card transactions totaling $7,279 did not have supporting documentation such as receipts or invoices."* The vast majority of these credit card transactions were made by CVLAS managing attorney Doris Causey during her historic term as the first African American and first legal aid attorney President of the Virginia State Bar. The agreement between CVLAS and the Virginia State Bar was that CVLAS would be reimbursed for these expenses and Ms. Causey was required to forward the receipts to the Virginia State Bar to do so. CVLAS did not allocate any of these expenses to LSC and recorded the transactions as accounts receivable.

14. On page 12 of the draft report it states that *"two of 90 credit transactions totaling $155 were LSC unallowable transactions of late payment fee and a purchase from an outdoor apparel and equipment store..."* and *"two of 90 credit card transactions totaling $121, were both LSC unallowable transactions of flower purchases..."* First, all four credit card purchases were approved and allowable transactions for CVLAS. Second, there is no prohibition for these transactions with a credit card. Third, none of the four transactions were allocated to LSC funds. Lastly, the purchase from an outdoor apparel and equipment store were for four posters of Richmond landmarks which hang in CVLAS' conference room and were shown to the OIG auditors at their request during the audit.

15. On page 12 of the draft report it states that *"Pertaining to the LSC unallowable [*credit card*] transactions...the grantee did not use a funding code within the financial software to identify funding charged for the LSC unallowable transactions."* This is not accurate. At the time of the OIG audit CVLAS' Fiscal Administrator demonstrated that all transactions receive a funding code within the financial software, although these funding classes do not appear in the printed general ledger. The OIG auditors were also shown that each of the LSC unallowable credit card transactions were allocated to a funding source other than LSC.

16. On page 12 of the draft report it states *"...the Executive Director stated that they do not fully maintain documentation as there was a degree of trust accorded to the credit card users."* This is not accurate. The Executive Director does not rely on trust for credit card transactions, although the Executive Director does trust the credit card users to follow CVLAS policy. CVLAS requires receipts or other documentation for all credit card transactions.

17. On page 13 of the draft report it states that *"The OIG was unable to verify whether the unallowable and unsupported transactions were allocated to LSC due to the lack of sufficient accounting system documentation..."* CVLAS' Fiscal administrator demonstrated to the OIG at the time of the audit that each transaction was assigned a funding code within the financial

software and physically showed the auditors no less than 16 examples of that funding allocation. All LSC unallowable transactions were not allocated to LSC and an audit trail of those allocations was recorded in CVLAS' financial software.

Lack of Approvals and Unauthorized Credit Card Users

18. Also on page 13 of the draft report it states that *"The Executive Director stated they did not fully maintain documentation approvals due to the degree of trust accorded to the credit card users."* This is only partially true. All authorized users of CVLAS credit cards, including the executive director are required to provide documentation regarding credit card use and no one, except an authorized user can use a CVLAS credit card without prior permission. However, an authorized credit card user may give the credit card to another staff person to carry out a transaction on behalf of the program. The Executive Director has, for example, authorized a staff member to use the credit card assigned to him to pay for a delivery when the Executive Director was not present in the office. Documentation of the transaction must be reviewed and approved by an appropriate person in management.

GENERAL LEDGER AND FINANCIAL CONTROLS

Terminated Employees Maintained User Rights in Accounting System

19. On page 16 of the draft report it states that "*...two former CVLAS employees retained access rights to the accounting system.*" and that OIG *"states a best practice for employees termination procedures is for management to revoke all remote and on site access immediately after an employee departs."* All former employees are locked out of our computer system when they are terminated and onsite and remote access is revoked immediately. The only current people able to access our accounting system are the Fiscal Administrator and the Executive Director. They only way they can access the accounting system is first through the password protected remote and onsite access. Since all former employees have no access to our system they could not enter our accounting system even if there were still former employees listed in the accounting software.

Users Sharing Account Access

20. On page 17 of the draft report it states *"Sharing of user names and passwords widens the potential for unauthorized access, fraud and obscures the audit trail of the accounting system."* CVLAS wholeheartedly agrees with this statement, which is why OIG found no evidence of users sharing user names and passwords or at least did not demonstrate that they had found evidence of this in their draft report.

EMPLOYEE BENEFITS

Inadequate Approval and Documentation over Salary Advance

21. On page 22 of the draft report it states that *"...all six salary advance requests had no signed acknowledgement agreement to document that the employee agreed with the grantee's salary repayment terms and conditions."* While this is technically accurate, all salary advances contain the terms of repayment and each is agreed upon by an appropriate level of management and the staff member receiving the advance. The fact that these agreements are in the form of emails and may consist of several separate written pieces of correspondence does not make them any more susceptible to misunderstandings or improper payroll deductions.

INTERNAL REPORTING AND BUDGITING

Audit and Finance Committee Minutes

On page 22 of the draft report it states that the CVLAS Audit and Finance Committee *"does not keep minutes of its meetings"* and that "*All financial decisions within these parameters should be recorded in the minutes."* CVLAS Board committees, except for the Executive Committee, do not make decisions on their own. Their primary role is to examine a certain issue and then make recommendations to the full board. The sole power to adopt a budget, set financial policy, and approve major expenditures, rests with the full board. CVLAS full board meetings have their minutes recorded and kept on file as LSC recommends.

Response to Recommendations

Recommendation 1: ensure the accounting system provides an audit trail to present an accurate and traceable allocation report and transaction for each funding source.

The policy is in place to provide an appropriate audit trail. As explained to the on-site auditors and again in this report, during the year all direct costs are assigned to a funding source by hours worked and direct fund source expenses. All indirect costs that are required for a specific grant or are prohibited by a specific grant are assigned to an alternate funding source. All other indirect costs, general office supplies for example, are left unclassified or put under general funding. At year-end, all of the unclassified indirect costs are allocated according to the formula the Executive Director developed. The IPA recommends some adjustments during the year-end audit. CVLAS will, in the future record all allocations in the accounting system. The Executive Director and Fiscal Administrator will meet quarterly to adjust allocations to indirect costs as our amended policy states.

Recommendation 2: ensure that CVLAS staff complies with written policies and procedures for cost allocation. Any deviation from the written cost allocation formula should be documented on file.

CVLAS' Fiscal Administrator will comply with written policies concerning allocations in the accounting system and any deviation from the written policy will be recorded.

Recommendation 3: ensure that cost allocations are reviewed for the previous month, monitor expenditures, and make adjustments for funding sources. Perform cost allocations more than once per year.

The policy manual has been amended to state that Executive Director and Fiscal Administrator will meet no later than the third Thursday of each month to ensure that cost allocations are reviewed for the previous month, monitor expenditures, and make adjustments for funding sources. Cost allocations will be reviewed quarterly.

Recommendation 4: ensure that the cost allocation process is performed frequently enough to provide meaningful financial information to grantee management, the Board of Directors, and funders.

The accounting manual has been amended to reflect that cost allocation will be performed quarterly. Duties of the Fiscal Administrator have been changed to ensure she has the time to carry out these allocations. CVLAS will make final allocations and adjustments prior to the year-end audit.

Recommendation 5: ensure that allocations are performed for rental income pursuant to 45 CFR § 1630.17 and in accordance with the written procedures in CVLAS Accounting Manual; any deviation should be documented on file.

CVLAS no longer rents out office space to LAJC or to James House. However, if CVLAS does rent out space to any organization in the future, written procedures will be followed and any deviation from those procedures will be documented.

Recommendation 6: assign the corresponding funding source within the case management system and ensure that the requirements of 45 CFR § 1609.4(b) are fully implemented.

The new case management system has improved CVLAS' ability to keep time records according to funding codes. All Staff have been trained more than once since the OIG audit on assigning funding codes. Personnel policies and procedures have been changed so that managers are now required to check time records each pay period for total hours and funding sources. CVLAS will continue to monitor time records to ensure accuracy.

Recommendation 7: ensure that an accurate and complete attendance record (i.e., timesheet) is maintained for each employee and for each pay period.

See response to Recommendation 6.

Recommendation 8: conduct a detailed review of all payroll processed in 2018 and 2019 to identify payroll over and underpayments and complete this review within six months of the issuance of this report.

CVLAS was understandably concerned with this conclusion and undertook an immediate review of payroll records for 2016 and 2017. Our findings are that no one at CVLAS was overpaid or underpaid during that time period. As noted in the report and explained to the on-site auditors, CVLAS employees are paid twice a month (24 pay periods per year) and each pay check reflects 86.67 hours worked (2080 divided by 24). In contrast, the time sheets represent the number of hours actually worked, i.e. regular hours, holiday/sick/annual leave, in the pay period. The time sheets do not match the payroll records because each employee is paid the same every half month but each pay period has 9, 10 or 11 actual work days. Please see our answer under Payroll above for more details.

Recommendation 9: to the extent consistent with the law, reimburse employees that were identified as underpaid and attempt to recover payment from all employees that were identified as overpaid in the above review.

CVLAS does not agree that any employee has been under or overpaid, and therefore, no reimbursements or recovery is warranted.

Recommendation 10: ensure that employees assigned with payroll duties receive the appropriate training to ensure that payroll is accurately documented, recorded, processed, and reported.

CVLAS agrees that employees should be properly trained and payroll should be accurately documented, recorded, processed, and reported and policies and procedures are in place to ensure that is done. However, manual data entry errors will occur regardless of the amount of training an employee undergoes.

Recommendation 11: ensure that attendance records such as timesheets for all employees are approved by the employee's supervisor and documented on file.

CVLAS implemented a time keeping procedure that now requires each managing attorney to run a time report from the case management system and sign off on the hours recorded by employees in their offices.

Recommendation 12: ensure that advance approvals for compensatory time are adequately documented to reflect that the request was made prior to an employee performing overtime duties.

CVLAS revised the compensatory time policy requiring employees to request and receive approval for compensatory time prior to performing any duties using compensatory time.

Recommendation 13: ensure that compensatory time is only awarded to employees who work more than 45 hours in a given week per the CVLAS Personnel Manual.

Under CVLAS' new compensatory time policy, the person granting permission for comp time will be responsible for ensuring the employee has worked a minimum of 45 hours in that week.

Recommendation 14: establish a formal tracking system to record employees' compensatory time earned, used, and remaining balances.

CVLAS has created a new timekeeping report that includes compensatory time earned and used which updates automatically. This new report will require people who, with advance permission from an appropriate person, earn and use compensatory time.

Recommendation 15: ensure that compensatory time is accurately recorded in the payroll system, in the corresponding payroll register, and subsequently reported on the employee's pay stub.

CVLAS will request that Ceridian, its outside payroll system, establish a method to record compensatory time and subsequently report the balance on the employee's pay stub. If Ceridian is unable to record compensatory time, CVLAS will investigate switching to a new outside payroll system.

Recommendation 16: ensure that LSC unallowable costs are charged to funding sources other than LSC and reflected within the financial software to provide an audit trail.

At the time of the OIG audit CVLAS' Fiscal Administrator demonstrated that all transactions receive a funding code within the financial software, although these funding classes do not appear in the printed general ledger. The OIG auditors were also shown that each of the LSC unallowable credit card transactions were allocated to a funding source other than LSC.

Recommendation 17: ensure that supporting documentation, including receipts and invoices, are maintained for each transaction to fully support all credit card purchases.

Policies and procedures are in place to ensure that all documentation is maintained to fully support all credit card transactions.

Recommendation 18: ensure the purchase approval process is followed and appropriate approvals are obtained for each requisite transaction. These approvals should be documented and maintained on file.

Policies and procedures are in place to ensure that the purchase approval process is followed, documented and maintained on file.

Recommendation 19: ensure that credit cards are not being shared and only those individuals specifically named as authorized credit card users in the CVLAS Accounting Manual have access to a CVLAS credit card.

All authorized users of CVLAS credit cards, including the executive director are required to provide documentation regarding credit card use and no one, except an authorized user can use a CVLAS credit card without prior permission. However, an authorized credit card user may give the credit card to another staff person to carry out a transaction on behalf of the program. The Executive Director has, for example, authorized a staff member to use the credit card assigned to him to pay for a delivery when the Executive Director was not present in the office. Documentation of the transaction must be reviewed and approved by an appropriate person in management.

Recommendation 20: require a signed user acknowledgement agreement for each authorized credit card user. The form should include repayment terms and conditions for personal use or misuse of the card and be documented on file.

CVLAS will obtain signed user acknowledgement agreements for each authorized credit card user which includes repayment terms and conditions for personal use or misuse of the card and will maintain those agreements on file.

Recommendation 21: ensure that review and approval processes are adequately documented with signature and date prior to disbursements.

Policies and procedures are in place to ensure that review and approval processes are adequately documented with signature and date prior to disbursements.

Recommendation 22: ensure that disbursements are not made without adequate documentation and internal verification of receipt of goods and accuracy of invoices.

Policies and procedures are in place to ensure that disbursements are not made without adequate documentation and internal verification of receipt of goods and accuracy of invoices.

Recommendation 23: remove accounting system access from anyone who is not a current authorized user of the CVLAS accounting system. The Executive Director should also implement a policy whereupon user access to the accounting system is immediately removed upon the termination or transfer of an authorized user.

This has been completed and CVLAS will amend its policies to reflect its current practice of immediately removing user access of any terminated employee.

Recommendation 24: ensure that anyone who accesses the accounting system has their own unique username and password. The Executive Director should limit user privileges to ensure that users have access only to those functions pertinent to their duties.

CVLAS has only three user licenses for access to the accounting system and only two people currently have access to the system. These people are the Executive Director and the Fiscal Administrator and they do not share their access with anyone. As noted in the report, the Fiscal Administrator signs in to the accounting system and then gives her computer to an office manager to perform account reconciliations, and thus, there is no sharing of passwords. In addition, the Fiscal Administrator's account has been locked so that only those people with functions pertinent to their duties have access to the accounting system.

Recommendation 25: ensure that authorized individuals perform bank reconciliations monthly and no later than 15 working days after receipt of the statement per CVLAS Accounting Manual.

CVLAS will ensure that authorized individuals perform bank reconciliations monthly and in accordance with the CVLAS Accounting Manual.

Recommendation 26: ensure bank reconciliations are reviewed and approved by a responsible individual including signature and date by the preparer and approver.

Policies and procedures are in place to ensure that bank reconciliations are reviewed and approved by the Executive Director to including signature and date of the Fiscal Administrator and Executive Director.

Recommendation 27: ensure the Fiscal Administrator signs and dates their approval of petty cash reconciliations on the reconciliation form.

Policies and procedures are in place to ensure that the Fiscal Administrator signs and dates the approval of petty cash reconciliations on the reconciliation form.

Recommendation 28: The Executive Director should ensure that CVLAS complies with the requirements of the LSC Accounting Guide 3-5.16 and ensure that contracts and invoices are received, documented, approved and verified prior to payment.

The Executive Director will ensure that CVLAS complies with the LSC Accounting Guide 3-5.16 by, prior to payment, contracts and invoices are received, documented, approved and verified within 90 days of this writing.

Recommendation 29: ensure property records contain all elements required by the LSC Accounting Guide 3-5.4(c) as mentioned above and that all employees involved in performing inventories and maintaining the property record are knowledgeable of the relevant policies.

CVLAS amended the Accounting Manual to reflect LSC's requirement that grantees must capitalize and depreciate all non-expandable items with a cost in excess of $5,000 and a useful life of more than one year. CVLAS inventoried all property as required by LSC.

Recommendation 30: ensure that all applicable fixed assets with a cost or value of $200 or over should be tagged, inventoried, and added to the fixed asset records according to CVLAS policy.

CVLAS has tagged, inventoried, and added to the fixed asset records all property that meets the revised Accounting Manual policy.

Recommendation 31: ensure a board member is involved in the review and approval process of the Executive Director's salary advance requests with documentation maintained on file.

CVLAS' Personnel Manual has been revised to require a Board member's review and approve of the Executive Director's request for a salary advance, documentation of which will be maintained on file.

Recommendation 32: ensure that staff understand the agreed upon terms and conditions of a specific salary advance and the agreement is documented.

CVLAS will obtain a salary advance agreement for each employee that has an outstanding salary advance, has revised the Personnel Manual to reflect the requirement that an agreement be signed prior to any future salary advances, and will maintain documentation on file.

Recommendation 33: ensure that the Audit and Finance Committee record financial decisions and approvals made by the governing body in accordance with the LSC Accounting Guide, Section 3-5.2(b).

CVLAS' Audit and Finance Committee does not make final financial decisions. The committee makes recommendations to the full Board which are then approved, adopted and recorded in the minutes of the full Board. Therefore, CVLAS believes this process complies with the LSC Accounting Guide, Section 3-5.2(b)

Recommendation 34: ensure budgets are built from cost centers or funding sources each year to identify details necessary for proper analysis and control of program spending.

The Fiscal Administrator and Executive Director are analyzing our accounting system to determine the best way to achieve this recommendation. We could not complete our analysis before the deadline of this response and our request for an extension of the deadline to file was denied.

Recommendation 35: ensure that written policies and procedures for cost allocation, credit cards, contracting, and fixed assets are included in the grantee's Accounting Manual,

adequately describe the processes and controls in sufficient detail, and are in accordance with LSC's Accounting Guide, regulations and guidelines.

CVLAS will review its written policies and procedures for cost allocation, credit cards, contracting and fixed assets are in accordance with LSC's regulations and guidelines and adequately describe the processes and controls in sufficient detail.

Recommendation 36: revise the policies in CVLAS Accounting Manual to reflect new requirements included in 45 CFR §1630 and §1631, effective December 31, 2017.

CVLAS' revised its Accounting Manual to reflect these new requirements.

In summary, while we believe the draft report contains many useful observations it also has some inconsistencies from the audit and opinions that may be based on misunderstandings. The issues raised above and in our responses to the recommendations are examples of a general impression that data collected at the audit performed in March 2018 were disconnected from the report issued in September 2019. It feels as though the individuals who completed the audit did not write the report. It is also possible that during the 18 months from the audit to the issuing of the report some information was lost or forgotten.

We sincerely appreciate the time and effort that went into drafting this report.

Very truly yours,

Stephen Dickinson