



Office of Inspector General
Legal Services Corporation

Inspector General

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November 22, 2019

Yvonne Mariajimenez
Executive Director
Neighborhood Legal Services of Los Angeles County
1102 East Chevy Chase Drive
Glendale, CA 91205

Dear Ms. Mariajimenez:

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Neighborhood Legal Services of Los Angeles County (NLSLA). Appendix II of the final report includes NLSLA's comments to the draft report in their entirety.

The OIG considers proposed actions to Recommendations 1, 2, 3, 5, 6, 7, 8, 9, 10, 12, 13, and 19 as fully responsive and has closed the twelve recommendations.

- For Recommendation 2, the OIG questioned costs totaling \$127,042 pursuant to 45 Code of Federal Regulations (CFR) Part 1630.5 *Standards governing allowability of costs under LSC grants or contracts*.
- For Recommendation 19, the OIG accepted additional information provided by NLSLA management in response to the OIG's Draft Audit Report as support that the \$37 administrative expense was an LSC allowable cost.

The OIG considers the proposed actions to Recommendations 4, 11, 14, 15, 16, 18, 20, 21 and 22 as responsive. However, the nine recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation are provided to the OIG.

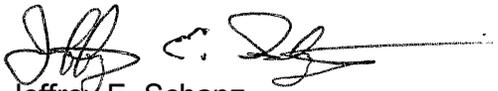
The OIG considers the proposed actions to Recommendation 17 as partially responsive. The OIG questioned costs totaling \$2,443 of unallowable expenses, for the un-responsive

portion, pursuant to 45 CFR Part 1630.5 *Standards Governing Allowability of Costs Under LSC Grants or Contracts*.

The OIG is referring a total of \$129,485 of questioned costs to LSC Management for their review and action.

Please send us your response to close out the nine open recommendations, along with supporting documentation within six months of the date of the final report. We thank you and your staff for your cooperation and look forward to receiving your submission by May 22, 2020.

Sincerely,



Jeffrey E. Schanz
Inspector General

Enclosure

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**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL CONTROLS
NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES
COUNTY**

RNO 805180

Report No. AU 20-01

November 2019

www.oig.lsc.gov

Table of Contents

INTRODUCTION	1
BACKGROUND	1
OBJECTIVE	2
AUDIT FINDINGS	2
COST ALLOCATION	2
Recommendation 1:	3
Recommendation 2:	3
PAYROLL	4
Recommendation 3:	5
Recommendation 4:	5
CONTRACTING	5
Recommendation 5:	9
Recommendation 6:	9
Recommendation 7:	9
Recommendation 8:	9
Recommendation 9:	9
Recommendation 10:	9
Recommendation 11:	9
Recommendation 12:	9
FIXED ASSETS	9
Recommendation 13:	11
Recommendation 14:	11
Recommendation 15:	11
Recommendation 16:	11
DISBURSEMENTS	11
Recommendation 17:	12
STORE CREDIT CARDS	12
Recommendation 18:	14
Recommendation 19:	14
GENERAL LEDGER AND FINANCIAL CONTROLS	14
Recommendation 20:	15
Recommendation 21:	15

EMPLOYEE BENEFITS	15
Recommendation 22:	16
OIG SUMMARY OF GRANTEE MANAGEMENT COMMENTS.....	17
OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS	17
APPENDIX I – SCOPE AND METHODOLOGY	20
APPENDIX II – GRANTEE MANAGEMENT COMMENTS	22

INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Neighborhood Legal Services of Los Angeles County related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Glendale, CA and at LSC headquarters in Washington, DC.

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

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

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

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

BACKGROUND

Neighborhood Legal Services of Los Angeles County (NLSLA, or "grantee") is a California not-for-profit corporation organized for the purpose of providing free legal assistance on civil matters to low-income persons who reside in Los Angeles County when they are unable to afford such services through customary channels. NLSLA has twelve office locations in Los Angeles County, California (CA). Its mission is to combat the effects of poverty and create lasting improvements in the lives of individuals and families throughout Los Angeles County.

NLSLA is funded by donations, grants, contracts (from federal, state, county, and municipal governments), private foundations, corporations, and individuals. According to the 2017 audited financial statements, NLSLA had total revenue and support of \$19,023,371. Twenty-four percent or \$4,471,967 was provided by LSC.

OBJECTIVE

The overall objective was to determine whether a selection of NLSLA's internal controls complied with the LSC Act of 1974, LSC Regulations, and other laws and regulations. The audit evaluated select financial and operational areas and tested the related controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations.

AUDIT FINDINGS

To accomplish the audit objective, the OIG reviewed and tested internal controls related to disbursements, contracting, fixed assets, store credit cards, cost allocation, derivative income, management reporting and budgeting, general ledger and financial controls, employee benefits, and payroll. The OIG also performed a limited review of Client Trust Funds general ledger balances. The Client Trust Fund general ledger balances appeared reasonable.

Additionally, the controls as they relate to specific grantee operations over derivative income and management reporting and budgeting were adequately designed and properly implemented. NLSLA needs to strengthen practices over internal controls (in the areas of cost allocation, payroll, contracting, fixed assets, disbursements, store credit cards, general ledger and financial controls, and employee benefits) and establish policies and procedures (for the areas of fixed assets and store credit cards) as described below.

COST ALLOCATION

NLSLA's written policy for cost allocation stated that "the methodology of polling all administrative costs in one cost center and allocating those costs to individual programs is applied consistently and proportionally to all programs up to the maximum amount allowed per each program's requirements." NLSLA's written policies and procedures regarding cost allocation were comparable to the *Fundamental Criteria* in the Accounting Guide. However, during interviews and testing, the OIG found that the grantee's cost allocation methodology did not allocate an equitable amount of indirect expenses to LSC.

The OIG randomly selected and reviewed five cost allocations performed during the six-month period of September 2018 through February 2019. The monthly cost allocations for January 1, 2017 through August 2018 were excluded from the population because the grantee's cost allocation methodology was determined to be inadequate based on the LSC Office of Compliance and Enforcement's March 2018 Compliance Review.

Cost Allocation Methodology

The grantee initially allocated all indirect expenses to LSC at the beginning of each month. A portion of the indirect costs were subsequently re-allocated to non-LSC grants at the end of each month; however, the percentage of indirect costs allocated to LSC was more than LSC's equitable share.

NLSLA acknowledged the deficiencies in their cost allocation methodology and were communicating with LSC management to develop a compliant allocation system for calendar year 2019. The new methodology aims to ensure that all funders, including LSC, receive a proportionate share of indirect expenses. NLSLA has also created a new general ledger code to capture and pool administrative costs. The OIG was unable to test the January and February 2019 cost allocations because NLSLA had not implemented the new cost allocation methodology by the end of our fieldwork.

45 CFR Part 1630.5(f) states, “where a recipient has only one major function, i.e., the delivery of legal services to low income clients, allocation of indirect costs may be made by a simplified allocation method, whereby total allowable indirect costs (net of applicable credits) are divided by an equitable distribution base and distributed to individual grant awards accordingly.”

NLSLA allocated most of its indirect costs to LSC because LSC had the fewest restrictions and administrative requirements for indirect costs of the grantee’s major funders.

Without an equitable basis for allocating indirect costs, LSC will incur a disproportionate share of the grantee’s indirect expenses.

Contracted Services for Information Technology

OIG contracting test work found that contracted fees of \$167,160 for an Information Technology (IT) services provider, who provided administrative services benefiting the entire organization, were fully allocated to LSC.

45 CFR Part 1630.5(c)(1) states, “a cost is allocable to a particular cost objective, such as a grant, project, service, or other activity, in accordance with the relative benefits received.”

NLSLA allocated the costs to LSC because their other grantors require more time and paperwork to allocate incurred costs for contracting.

Using LSC’s funding percentage of 24 percent, the grantee should have allocated \$40,118 of administrative services to LSC. The OIG questions \$127,042 pursuant to 45 CFR Part 1630.5(c)(1) and will refer the amount to LSC management for review and action.

We recommend the Executive Director ensures:

Recommendation 1: the grantee continues to work with LSC management to implement a compliant indirect cost allocation methodology that allocates indirect costs to grant awards equitably.

Recommendation 2: costs are allocated to LSC in a manner reasonably proportionate to the benefits received.

PAYROLL

NLSLA's written policies and procedures regarding payroll were generally comparable to the *Fundamental Criteria* in the Accounting Guide. The OIG judgmentally selected and reviewed 10 employees' timesheets from five bi-weekly pay periods and determined that employee supervisors did not approve timesheets and the Executive Director's timesheets were not reviewed by NLSLA's Board of Directors in accordance with the grantee's policies and procedures.

Lack of Supervisory Timesheet Approvals

NLSLA employees complete and approve timesheets using the Legal Server Case Management System. Supervisors at the management level and above (i.e., Managing Attorneys, Deputy Director, and/or Executive Director) did not approve an average of approximately 27 percent of timesheets in accordance with NLSLA's policies and procedures for the January 15, January 31, February 15, and February 28, 2019 pay periods. The Chief Financial and Operating Officer (CFOO) "locked" the pay periods in the Legal Server Case Management system to start the grantee's cost allocation process after attempting to encourage supervisors to sign timesheets after the end of each pay period. Table 1 provides an overview of the pay periods where supervisors did not approve employee timesheets.

Table 1: Summary of Employee Timesheet Findings

Pay Period	Not Approved	Approved	Total	% Not Approved	% Approved
01/15/19	38	95	133	29	71
01/31/19	38	95	133	29	71
02/15/19	31	101	132	23	77
02/28/19	35	97	132	27	73
Average	36	97	133	27	73

The Accounting Guide Section 3.5.5(a): *Attendance Record or Time Record* stipulates that "an attendance record or time record shall be maintained for each employee and shall be approved by the employee's supervisor." Further, NLSLA's Accounting Policies & Procedures state that "Timekeeping is entered by the employee and approved by the employee's supervisor for each pay period."

Supervisors responsible for approving employees' timesheets did not appear to fully understand how timesheet data is used to account for employee time and grant costs.

Failure to provide supervisory review of employee timesheets can lead to paying employees for inaccurate hours worked and/or incorrect allocations of indirect costs to grant awards.

Lack of Executive Director Timesheet Review

We discovered through our interviews with the CFOO that the Executive Director's timesheets are not reviewed by the Board of Directors.

NLSLA's Accounting Policies & Procedures state, "the Executive Director is also required to keep a detailed account of time worked and paid time off taken each day. The Executive Director may utilize the timekeeping database to keep time but is not required to as long as he can capture his daily time in a log through a word document or some other acceptable manner to the Board of Directors of reporting time worked and paid time off taken."

NLSLA had not been following their Accounting Policies & Procedures regarding the review of the Executive Director's time worked due to management oversight.

As a result, the Executive Director may be paid for unallowable activities and/or for time not worked.

We recommend the Executive Director:

Recommendation 3: implement a training program that emphasizes the importance of approving timesheets and NLSLA's policies and procedures.

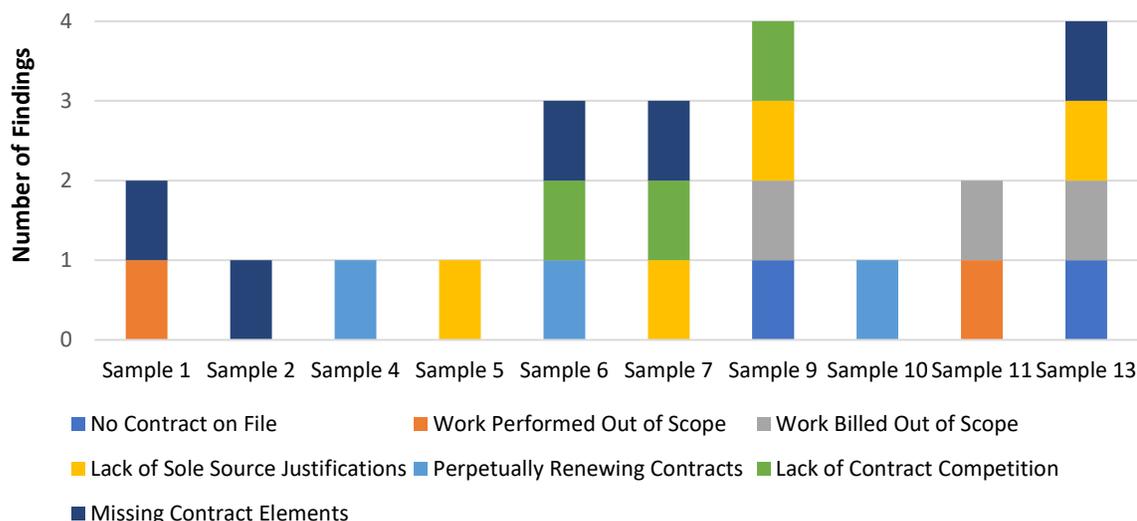
Recommendation 4: ensure that their time worked and paid time off are adequately recorded and reviewed by the Board of Directors in accordance with NLSLA policy.

CONTRACTING

NLSLA contracts with a variety of vendors, including consultants, event planners, information system support, janitorial services, security, and building management. NLSLA's written policies regarding contracting are comparable with the *Fundamental Criteria* in the Accounting Guide. However, while interviewing staff and performing test work, the OIG noted exceptions relating to contract documentation.

The OIG judgmentally selected 13 vendors contracts totaling \$746,713, which represents approximately 67 percent of the \$1,112,092 paid to third party vendors. The OIG identified that contracts were not on file, services and/or hours billed outside the scope of the contracts, and third-party vendors were paid incorrect amounts. Additionally, some contracts were perpetually renewing, had not been competed, included inadequate sole source documentation, or were missing required contract elements. Table 2 provides an overview of the contracting findings.

Table 2: Summary of Contracting Findings



No Contract on File

Two of the 13 vendors, with payments totaling \$143,935, did not have contracts on file. The OIG found:

- The grantee paid a total of \$102,435 to a consultant after the contract period of performance ended on December 31, 2017; and
- The grantee did not follow its contracting policies and procedures to establish a contract for a vendor prior to receiving services.

The Accounting Guide Section 3-5.16: *Contracting* states that “the process used for each contract action should be fully documented. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file.” In addition, the NLSLA Procurement Policy states that “contracts are preferred for all services, leases, and purchases of non-expendable goods wherever feasible and possible.”

The grantee did not follow its policies and procedures and LSC's requirements for contracting because they were satisfied with the vendors' work products.

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

Work Performed/Paid Out of Contract Scope

Five of the 13 vendors, with payments totaling \$181,602, performed services and/or billed for hours outside the scope of the contracts. The OIG found:

- Two vendors were contracted to provide care for clients' children in service of a non-LSC grant but provided general administrative duties for the LSC grant;

- Two vendors were paid for hours in excess of the hourly limit described in the contract.
 - One vendor, also mentioned above, was contracted to provide up to eight hours a week but consistently invoiced up to 18 hours a week; and
 - One Legal Server customization consultant was contracted to provide up to 20 hours a month but consistently billed up to 68 hours monthly; and
- NLSLA paid an employee development business consultant \$400 more than the contracted rate of \$1,400 per day.

The Accounting Guide Section 3-5.4(a): *Invoice and Receipt Verification* states that the accuracy of invoices should be verified and documented. Section 3.5-16: *Contracting* also states that “the process used for each contract action should be fully documented. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file.”

The grantee made verbal changes to approved contract terms based on the need for services and did not formally amend contracts to reflect the changes.

Without adequate internal verification, cash may be disbursed for services not received, in advance of receipt, or in the wrong amount. Proper documentation helps ensure that the grantee has a legal arrangement outlining established procedures for the goods and/or services to be received.

Lack of Sole Source Justifications

Four of the 13 contracts, with payments totaling \$514,400, were sole-sourced. However, the grantee did not document a sole source justification at the time the purchasing decision was made.

The NLSLA Procurement Policy stipulates that contracts over \$10,000 require, at minimum, a cost estimate or sole source justification. Additionally, LSC Program Letter 16-3 – Procurement Policy Drafting 101 states that sole source engagements must typically be justified and documented.

NLSLA did not establish practices compliant with their Accounting Policies & Procedures and LSC requirements due to management oversight.

Proper documentation helps ensure that the approved contract has followed all established procedures.

Perpetually Renewing Contracts

Three of 13 contracts, with payments totaling \$181,101, did not have a documented period of performance and were not periodically recompeted. These included an IT contractor and two janitorial contracts.

LSC Program Letter 16-3 – Procurement Policy Drafting 101 states that automatic renewals should be eliminated from contracts.

Two contracts were perpetually renewing because the grantee accepted the vendors' prewritten contract and terms without using its own contracting template. The third was

for a long-standing contractor for whom the grantee had a large degree of trust and satisfaction.

Perpetually renewing contracts can unintentionally obligate unsuspecting organizations to continue working with a non-performing contractor. Additionally, contract competition helps ensure that the grantee obtains the best value for their money.

Lack of Contract Competition

Three of 13 contracts, with payments totaling \$383,660, were long-term contracts that had never been recompeted. These included the IT contractor mentioned above, who had been working with the grantee for over 20 years, and two consultants with whom the grantee had contracted since 2010 and 2011, respectively.

The contracts were not recompeted due to the grantee's satisfaction with the vendors' and belief that the vendors were uniquely qualified.

LSC Program Letter 16-3 – Procurement Policy Drafting 101 states that it is important to periodically recompet long-standing contracts every three to five years to ensure that best value is obtained.

Contract competition helps ensure that the grantee obtains the best value for the money.

Missing Contract Elements

Five of 13 contracts, with payments totaling \$479,567, did not include required contract elements. Of the five contracts with inadequate contract elements, four contracts lacked adequate approvals and one contract did not specify the due date for contract deliverables.

Of the four contracts lacking adequate authorizations:

- One contract was not signed or dated by NLSLA or the third-party vendor;
- Two contracts were both dated April 5, 2019 although one contract term began on January 1, 2019 and the other on January 1, 2018; and
- One contract was signed but not dated by the Executive Director.

According to NLSLA's Accounting Policies & Procedures *Independent Contractor Policy*, all contracts are to be approved/signed by the Executive Director and the contract should reflect the contract period. The Accounting Guide Section 3-5.4: *Cash Disbursements* states that approval should be required at an appropriate level of management before a commitment of resources is made. Additionally, LSC Program Letter 16-3, Procurement Policy Drafting 101, states that all relevant parties must sign contracts.

Based on OIG review and observations, it was concluded that the issues were the result of management oversight.

Contracts that lack signatures or appropriate dates may indicate a lack of thorough and timely reviews and result in the grantee entering into improper contracting actions. Additionally, due dates for contract deliverables allow contracting parties to establish dates for the delivery of agreed upon work. When they are not provided, work may not be completed in a timely manner.

We recommend the Executive Director ensure that:

Recommendation 5: valid and current contracts are written, signed, and maintained for all business arrangements.

Recommendation 6: contracts fully document the agreed upon cost, payment, and other terms.

Recommendation 7: contractors are paid according to the terms and descriptions of expected work to be provided and documented within the contract.

Recommendation 8: any changes to contracted terms are be approved by both parties and documented.

Recommendation 9: all competition actions and sole source decisions are documented and maintained with the contract files, as outlined in the grantee's policies and procedures.

Recommendation 10: sole source justifications are made before the initiation of contracts.

Recommendation 11: automatic renewals of contracts are eliminated, and long-standing contracts should be rebid every three to five years.

Recommendation 12: each contract contains adequate approvals from both parties and a clear date by which deliverables are due.

FIXED ASSETS

The OIG determined that acquisitions, disposals, and maintenance over NLSLA's fixed assets were mostly compliant with the *Fundamental Criteria* in the Accounting Guide. However, NLSLA's written policies and procedures regarding tracking electronic equipment with sensitive information, and accounting for fixed assets do not adhere to the *Fundamental Criteria* or reflect the grantee's current practice of maintaining fixed assets. The grantee did not use property tags to track fixed assets or maintain adequate information in their property records. We randomly selected and reviewed five individual fixed assets totaling \$28,450, which represents approximately 29 percent of the \$82,359 book value of all NLSLA's assets as of February 28, 2019.

Inadequate Written Policies and Procedures

NLSLA did not include the following items in its policies and procedures as required by the *Fundamental Criteria*:

- a. Date acquired;
- b. Check number;
- c. Identification number; and
- d. Depreciation method.

The date acquired, identification number, and depreciation method are included in the grantee's property record but not mentioned in the grantee's Accounting Policies & Procedures. Additionally, the grantee's policies and procedures did not identify the person responsible for fixed asset tagging or include the required property information within the fixed asset register nor the disposition, inventory, and tracking of electronic devices containing sensitive information.

NLSLA acknowledged the deficiencies in their fixed asset policies and procedures during OIG fieldwork and provided a copy of their revised draft fixed asset tracking policy. The revised policy:

- provides guidance for tagging and tracking NLSLA's fixed assets and devices containing sensitive data;
- includes consideration of all elements required of a property record per the Accounting Guide;
- delegates fixed asset tracking and inventory duties to a responsible individual; and
- contains procedures for:
 - the addition and disposition of inventoried items to the property records; and
 - performing quarterly inventory assessments and yearly reconciliations of the property records to fiscal records.

The revised fixed asset policy was not finalized by the end of OIG fieldwork. As a result, no test work over the revised policy was performed.

Three sections within the Accounting Guide provide the criteria for accounting for fixed assets. Appendix II: *Property Records* stipulates the information that should be included in the grantee's property records; Section 2-2.4: *Property*, states that grantees should be mindful of items that may contain sensitive information and the need to inventory these items and dispose of them appropriately; and Section 3-5.12: *Assigned Responsibility* states that the grantee's accounting manual should document the individual responsibility for the timeliness and accuracy of each procedure.

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to the staff. Failure to maintain adequate property records may result in the inability to fully account for fixed asset purchases and track electronic devices containing sensitive information may result in the improper disclosure of confidential client or personal information.

Lack of Property Tags

The OIG was unable to find property tags on any fixed asset items, including our fixed asset sample, at the grantee's headquarters.

NLSLA's Accounting Policies & Procedures manual stipulates the tagging of real and personal property costing in excess of \$5,000. The Accounting Guide Appendix VII Part C: *Property Control*, suggests that fixed assets be tagged for easy identification within the property records.

NLSLA did not:

- set up proper procedures for tagging assets and maintaining property records due to management oversight;
- tag property because the grantee had not suffered any theft or loss in recent memory; or
- account for individual assets separately to meet capitalization thresholds and simplifying record keeping.

Failure to adequately track capital assets may result in the loss, misrepresentation, or defalcation of grantee property.

Lack of Property Record Attributes

NLSLA's property records did not include tag numbers for fixed assets, list specific identifying information for the items, or identify the asset's physical location at their offices. Additionally, multiple fixed assets were accounted for as one fixed asset in the property records which made it difficult locate individual assets.

The Accounting Guide Appendix VII Part C: *Property Control*, suggests that fixed assets be tagged for easy identification within the property records, and Appendix II: *Property Records* stipulates the information that should be included in the grantee's property records.

NLSLA did not set up proper procedures for tagging assets and maintaining property records due to management oversight or account for individual assets separately to meet capitalization thresholds and simplify record keeping.

Failure to adequately track capital assets may result in the loss, misrepresentation, or defalcation of grantee property.

We recommend the Executive Director ensure that:

Recommendation 13: the updated policies and procedures for fixed assets, including property records and sensitive assets, are implemented and included in NLSLA's Accounting Policies & Procedures.

Recommendation 14: the grantee follows its policies by tagging all capitalized physical assets.

Recommendation 15: the property records include information to allow NLSLA to easily track assets.

Recommendation 16: fixed assets are listed individually in the property records.

DISBURSEMENTS

NLSLA's written policies and procedures regarding disbursements were comparable to the *Fundamental Criteria* in the Accounting Guide. However, the OIG found that the grantee allocated unallowable costs to LSC. The OIG randomly sampled and reviewed

176 transactions totaling \$369,451, which represents approximately six percent of the \$6,287,458 disbursed for expenses other than payroll.

Unallowable Costs

The OIG found that four disbursements totaling \$6,344 included, or were entirely, unallowable uses of LSC funds. The disbursements were for floral arrangements, non-business-related travel, party supplies, and event planning. Table 3 provides a summary of the unallowable costs identified during testing.

Table 3: Summary of Disbursement Findings

Purpose	Amount of Disbursement	Amount Charged to LSC	Unallowable Amount Charged to LSC
Floral arrangements	\$1,685	\$1,685	\$1,685
Non-business local travel	\$30	\$30	\$30
Non-business party supplies	\$300	\$148	\$38
Event planning (including four awards)	\$4,329	\$4,329	\$758
Total	\$6,344	\$6,192	\$2,511

The grantee appeared to be mindful of appropriately allocating LSC-unallowable costs; however, the costs in question were allocated to LSC.

LSC Program Letter 18-3 states, “common costs determined to be unallowable by LSC include flowers; alcohol; holiday cards; and gifts for staff, board members, and/or private attorneys such as cakes, shot glasses, or other promotional items or tokens of appreciation such as pens, t-shirts, or coffee mugs.”

45 Code of Federal Regulations (CFR) Part 1630, *Section 1630.5: Standards governing allowability of costs under LSC grants or contracts*, states that expenditures by a recipient are allowable if the recipient can demonstrate the cost was reasonable and necessary for the performance of the grant. The OIG questions the unallowable amount pursuant to 45 CFR Part 1630. As such, \$2,511 will be referred to LSC management for review and action.

Based on OIG observations and test work, it was determined that the unallowable costs were allocated to LSC due to management oversight.

Using LSC funds for unallowable costs will result in the grantee violating the terms of their grant agreement and LSC’s regulations.

Recommendation 17: We recommend the Executive Director ensure that unallowable costs are not allocated to LSC.

STORE CREDIT CARDS

NLSLA’s written policies and procedures in regard to store credit cards did not comply with the *Fundamental Criteria* in the Accounting Guide. In addition, the OIG found that the

grantee allocated unallowable costs to LSC. The OIG judgmentally and randomly selected 29 transactions, totaling \$1,652, which represents eight percent of the \$19,836 paid to the store card vendors.

Lack of Policies and Procedures

NLSLA has two store credit cards with office supply vendors but did not establish written policies and procedures in accordance with the *Fundamental Criteria* in the Accounting Guide.

NLSLA does not believe their store credit cards are subject to the LSC criteria for credit cards because the store cards are issued in the grantee's name and office managers are authorized by NLSLA management to make purchases.

The Accounting Guide Section 3-4: *Internal Control Structure* (5) states, "each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*. Additionally, Appendix VII, G3. *Controls Over Cash Disbursements – Credit/Debit Cards* includes guidelines to be used in the development of policies and procedures over credit cards.

Fully documenting policies and procedures helps ensure that proper controls are implemented, serve as a vehicle to communicate controls to all staff and helps ensure that staff members understand their roles and responsibilities. Implicit, unwritten delegations of authority and "understood" criteria often lead to misunderstandings and less than efficient operations.

Unallowable Costs

NLSLA used store credit cards to purchase supplies for a social event and allocated the cost to LSC. The grantee appeared to be mindful of appropriately allocating LSC unallowable costs; however, the cost in question was allocated to LSC.

LSC Program Letter 18-3 states, "common costs determined to be unallowable by LSC include flowers; alcohol; holiday cards; and gifts for staff, board members, and/or private attorneys such as cakes, shot glasses, or other promotional items or tokens of appreciation such as pens, t-shirts, or coffee mugs."

45 Code of Federal Regulations (C.F.R.) Part 1630, *Section 1630.5: Standards governing allowability of costs under LSC grants or contracts*, states that expenditures by a recipient are allowable if the recipient can demonstrate the cost was reasonable and necessary for the performance of the grant.

The OIG questions the unallowable amount pursuant to 45 CFR Part 1630. As such, \$37 will be referred to LSC management (along with the \$2,511 unallowable costs from disbursements) for review and action.

OIG observations and test work determined that the unallowable costs were allocated to LSC due to management oversight.

Using LSC funds for unallowable costs will result in the grantee violating the terms of their grant agreement and LSC's regulations.

We recommend the Executive Director ensure that:

Recommendation 18: policies and procedures are developed and implemented to govern the use of store purchase cards and/or credit cards.

Recommendation 19: unallowable costs are not allocated to LSC.

GENERAL LEDGER AND FINANCIAL CONTROLS

NLSLA's written policies and procedures over General Ledger and Financial Controls were comparable to the *Fundamental Criteria* in the Accounting Guide. However, there was inadequate segregation of duties within the electronic bank deposit and cash receipts process. The OIG judgmentally selected three monthly cash receipt logs which represents approximately 12 percent of the 26 monthly cash receipts logs prepared during our audit scope.

Segregation of Duties Over Electronic Bank Deposits

The OIG found that the individual responsible for preparing bank deposit slips also made electronic check deposits.

The Accounting Guide Appendix VII, Part J: *Segregation of Duties*, suggests that an individual other than the person who prepares the bank deposit slip should make cash deposits.

Due to management oversight, NLSLA did not establish adequate policies and procedures over electronic bank deposits.

Inadequate segregation of duties can result in failure to prevent and detect errors, fraud, theft, and collusion.

Segregation of Duties Over Cash Receipts

The OIG found that the grantee maintained electronic receipt logs which were accessible to the entire NLSLA fiscal staff, including the individual responsible for depositing cash receipts. The individual who opened the mail and endorsed checks also had access to the cash receipt logs.

The individual responsible for completing bank deposits restrictively endorsed checks instead of the individual responsible for opening NLSLA's mail.

NLSLA's Accounting Policies & Procedures *Cash Receipts Policy* states that 'one person will log the cash receipts in the electronic cash receipt log, one person will prepare the deposit slip and deposit the check, one person will record the cash receipt, one person will prepare the bank reconciliation, and one person will review and approve the bank reconciliation.' Also, two sections within the Accounting Guide provide the criteria for segregation of duties over cash receipts. Section 3-4: *Internal Control Structure, Segregation of Duties* states, "accounting duties should be segregated to ensure that no individual simultaneously has both the physical control and the record keeping responsibility for any asset, including... cash," and Section 3-5.4: *Cash Receipts*,

Endorsement states that ‘the checks should be restrictively endorsed by the individual opening the mail.’”

NLSLA did not comply with their Accounting Policies & Procedures or the Accounting Guide for the cash receipts process due to management oversight.

Failure to restrict access to the cash receipt logs may result in individuals making unauthorized edits or deletions. Also, inadequate segregation of duties can result in failure to prevent and detect errors, fraud, theft, and collusion.

We recommend the Executive Director ensure that:

Recommendation 20: individuals responsible for making cash deposits do not have the ability to edit and delete data from the cash receipts log.

Recommendation 21: segregation of duties is implemented within the organization’s cash receipt processes. The individual opening the mail should be initially accountable for cash received and responsible for restrictively endorsing checks. Also, the individual who prepares the deposit slips should not make electronic check deposits.

EMPLOYEE BENEFITS

NLSLA offered salary advances, loan repayment assistance payments, vacation leave, sick leave, catastrophic sick leave, compensatory time, annual health payments, and a one-time health incentive payment to employees during the audit scope. NLSLA equitably offered the benefits to all employees and written policies and procedures for employee benefits appear to comply with the *Fundamental Criteria* in the Accounting Guide. However, the OIG judgmentally selected and reviewed the compensatory leave balances for 10 employees and found that four exempt employees used compensatory time without obtaining advance, written approval.

Compensatory Time

NLSLA management and employees earn compensatory time based on their exempt status (i.e., non-exempt or exempt). Attorney and Management Staff are considered exempt employees, accrue compensatory time at a rate of one (1) times the additional hours worked, and must obtain prior approval from the employee's Supervising Attorney, a Managing Attorney, the Deputy Director, or the Executive Director before using compensatory time.

Six of the 10 employees were required to obtain advanced written approval to use compensatory time. The OIG determined that four of the six exempt employees who used compensatory time did not obtain prior written approval. Table 4 provides an overview of the findings identified during test work.

Table 4: Summary of Compensatory Time Findings

Exempt Status	Employees	Employees Who Used Compensatory Time	Employees Required to Obtain Advance Written Approval	Employees Who Obtained Advance Written Approval
Non-Exempt	4	2	0	0
Exempt	6	4	4	0
Total	10	6	4	0

NLSLA’s Compensatory Time Off and Overtime Policy states: “All salary exempt employees shall be entitled to receive compensatory time off for hours worked in excess of the regularly scheduled number of hours for a pay period (net per pay period), exclusive of lunch periods. Those employees shall accrue compensatory time off at a rate of one (1) times the additional hours worked. Prior to utilizing accrued compensatory time, the salary exempt employee must request authorization in advance of the time or date that the employee wishes to take off.”

The NLSLA’s Employee Handbook Section K.12, *Compensatory Time and Overtime for Attorney and Management Staff* states: “requests to use compensatory time must be submitted and approved in advance by the employee’s supervising Attorney, a Managing Attorney, the Deputy Director, or Executive Director.”

OIG observations and test work determined that NLSLA management and employees were not aware of the requirement to obtain prior, written approval to use compensatory time.

Failure to enforce NLSLA’s policies and procedures can result in employees using unearned compensatory time or compensatory time in excess of the maximum amount allowed per year.

Recommendation 22: We recommend the Executive Director provide training to NLSLA management and employees on the compensatory time policies and procedures.

OIG SUMMARY OF GRANTEE MANAGEMENT COMMENTS

NLSLA management provided responses to the OIG's Draft Report on October 31, 2019. NLSLA's responses are included in their entirety in Appendix II. NLSLA management agreed with 21 of the recommendations. For:

- 20 recommendations, NLSLA has or is in the process of implementing the recommendations; and
- one recommendation, NLSLA provided additional information clarifying that the \$37 purchase was for administrative expenses and unrelated to the ice cream social.

For Recommendation 17, NLSLA management stated that the:

- fundraising expenses of \$1,685 for floral arrangements and \$758 honoree awards are allowable LSC expenses;
- local travel expense of \$30 to NLSLA's holiday party was business in nature, but agreed to update NLSLA's local travel policy to no longer allocate holiday party travel to LSC;
- disbursement expense of \$38 for 'non-business party supplies' was not related to the ice cream social. NLSLA management provided additional documentation to confirm that the expense was for LSC allowable administrative expenses.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers NLSLA's comments, actions, and supporting documentation provided as of October 31, 2019 for Recommendations 1, 2, 3, 5, 6, 7, 8, 9, 10, 12, 13, and 19 as fully responsive. The OIG considers the twelve recommendations to be closed. For Recommendation(s):

- 1 and 2, NLSLA management provided an updated monthly cost allocation methodology that initially records indirect costs in a non-LSC fund source account and then allocates indirect costs to grant awards to the extent possible and feasible.
 - However, for Recommendation 2, the OIG could not determine whether NLSLA reallocated \$127,042 of Information Technology (IT) costs incurred during our audit scope from LSC to other funders. As a result, the OIG is referring the questioned costs pursuant to 45 C.F.R. Part 1630.5 *Standards governing allowability of costs under LSC grants or contracts* to LSC's OCE management for review and action.
- 3, NLSLA management has reinforced the grantee's timesheet policy with supervisors and staff.
- 5, NLSLA management now maintains valid and current written contracts that are signed by both parties and includes all business arrangements.
- 6, NLSLA management now fully documents its contracts' cost, payment and terms.

- 7, NLSLA's contractors are now paid in accordance with the terms and descriptions documented within the contract's Scope of Work. Additionally, contractor invoices detail the work performed and are reviewed by the Project Supervisor prior to payment.
- 8, NLSLA management reviewed all contracts to ensure they are updated with current contract terms and approved/ signed by all respective parties.
- 9, NLSLA management now includes sole source decisions with contract files.
- 10, NLSLA's contracting policy to require that sole source justifications are completed before initiation of the contract.
- 12, NLSLA management has updated all contracts to include approvals from all respective parties involved. In addition, contracts contain a Scope of Work with clear deliverables and responsibilities of each party.
- 13, NLSLA management included the new Fixed Asset Policy shared with the OIG during our fieldwork in their Accounting Policies and Procedures.
- 19, The OIG accepted additional information provided by NLSLA management in response to the OIG's Draft Audit Report as support that the \$37 administrative expense was not related to the LSC Office of Compliance ice cream social.

The OIG considers the proposed actions for Recommendations 4, 11, 14, 15, 16, 18, 20, 21, and 22 as responsive. However:

- Recommendation 4 will remain open until the OIG is notified that the Executive Director is entering time contemporaneously in Legal Server and provided with the Board approved policy relating to review of the Executive Director's timekeeping on a quarterly basis.
- Recommendation 11 will remain open until the OIG is notified that NLSLA management has fully implemented:
 - the removal of automatic renewal terms and included an option to not renew the contract if notice is received within a specified time frame for contracts with automatic renewals; and
 - the process of re-bidding contracts every three to five years.
- Recommendation 14 will remain open until the OIG is notified that NLSLA management has tagged all capitalized physical assets;
- Recommendation 15 will remain open until the OIG is notified and provided supporting documentation that NLSLA management has updated their property records to include information that allows for easy tracking of fixed assets;
- Recommendation 16 will remain open until the OIG is provided supporting documentation that NLSLA's fixed assets are listed individually in the property records;
- Recommendation 18 will remain open until the OIG is provided with updated Board approved policies and procedures for Store Cards and online purchases of office supplies;
- Recommendation 20 will remain open until the OIG is notified that an Office Manager electronic cash / check receipts log has been established and is in use by NLSLA;

- Recommendation 21 will remain open until the OIG is provided with an updated cash receipts policy that states all mail is opened under dual control and designates responsibilities for segregation of duties for NLSLA's small accounting department; and
- Recommendation 22 will remain open until the OIG is provided with documentation that NLSLA's time off policy was reiterated to NLSLA employees and a training program for seeking approval prior to utilization of paid time off has been implemented.

The OIG considers the proposed actions for Recommendation 17 as partially responsive.

- The OIG accepts the additional documentation provided by NLSLA management on October 30, 2019, and the grantee's response to the OIG's Draft Audit Report, as adequate support that the \$38 administrative expense was an allowable LSC expense.
 - As a result, the OIG considers the \$38 as an LSC allowable expense.
- The OIG accepts the additional documentation provided by NLSLA management on October 30, 2019, and the grantee's response to the OIG's Draft Audit Report, as adequate support that the \$30 local travel expense to NLSLA's holiday party was an allowable LSC expense.
 - As a result, the OIG considers the \$30 as an LSC allowable expense.
- NLSLA management maintains that 1) fundraising expenses of \$1,685 for floral arrangements and \$758 for honoree awards are allowable expenses. However, LSC Program Letter 18-3 states, "common costs determined to be unallowable by LSC include flowers; alcohol; holiday cards; and gifts for staff, board members, and/or private attorneys such as cakes, shot glasses, or other promotional items or tokens of appreciation such as pens, t-shirts, or coffee mugs."
 - As a result, the OIG is referring questioned unallowable costs of \$2,443 pursuant to 45 C.F.R. Part 1630.5 *Standards governing allowability of costs under LSC grants or contracts* to LSC's OCE management for review and action.

APPENDIX I – SCOPE AND METHODOLOGY

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

- Client Trust Funds;
- Derivative Income;
- Management Reporting and Budgeting;
- Cost Allocation;
- Payroll;
- Contracting;
- Fixed Assets;
- Disbursements;
- Store Credit Cards;
- General Ledger and Financial Controls; and
- Employee Benefits.

The OIG 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 during the period of January 1, 2017 through February 28, 2019. To obtain an understanding of the internal controls over areas listed above, we reviewed the grantee's policy and procedures, including manuals, guidelines, memoranda and directives, setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework and management and staff were interviewed as to their knowledge and understanding of the processes in place. We also reviewed the grantee's Client Trust Fund general ledger balances for reasonableness.

We assessed the reliability of grantee provided computer-generated data in accordance with Government Auditing Standards. We performed data assessments, conducted interviews, performed a mix of electronic testing, traced samples, and reviewed select accounting and payroll system controls. To test for the completeness of data populations provided for the activities presented above, we compared the information within the data populations to source documents. We found that the source documents for all sampled transactions were traceable to the general ledger. We determined that the computer processed data is reliable and sufficient for the audit objectives.

To review and evaluate internal controls, we performed direct tests, including inquiry, observation, examination, and inspection, over source documents to determine whether the grantee's internal control system and policies and procedures complied with the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the Accounting Guide.

A non-statistical sampling methodology was used to select samples for testing. We determined that a non-statistical methodology would be appropriate based on our audit objectives, audit scope, nature of the grantee, and audit timeline. Our results cannot be

projected to the universe and are not intended to make inferences about the populations from which our samples were derived.

We reviewed all calendar year ending balances for rental income, interest income, and attorney fees and costs. The total value of all derivative income sources equals \$235,156. We used a simple random sample methodology to select samples for disbursements, cost allocations, and fixed assets. We used a judgmental and simple random methodology for contracting, store credit cards, internal management and reporting, employee benefits, payroll, and general ledger and financial controls.

- The management and reporting sample consists of five monthly financial reports and one annual budget and projection. The samples represented approximately 19 percent and 33 percent of the grantee's monthly financial and annual reports.
- The payroll sample consists of five payroll packages, approximately 10 percent of the 52 payroll packages prepared.
- The general ledger and financial controls sample consists of 18 bank reconciliations and represents 23 percent of the 78 bank reconciliations prepared.
- The employee benefits sample consists of salary advances, loan repayment assistance payments, annual health payments, and a one-time annual health incentive bonus. We selected:
 - The vacation, sick, catastrophic sick, and compensatory time leave balances for the ten employees whose timesheets were tested in the payroll activities;
 - Two salary advance payments totaling \$1,513 (100 percent of the \$1,513 disbursed);
 - 16 loan repayment assistance payments totaling \$44,105 (approximately 24 percent of the \$182,550 disbursed);
 - Six annual medical health payments totaling \$4,500 (approximately 24 percent of the \$18,750 disbursed); and
 - Three one-time medical health incentive payments totaling \$2,500 (approximately 19 percent of the \$13,000 disbursed).

Our work was conducted at the grantee's administrative office in Glendale, CA and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2017 through February 28, 2019. The OIG conducted on-site fieldwork for the from April 4, 2019 through April 11, 2019. The audit was conducted in accordance to 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 findings and conclusions based on the audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

APPENDIX II – GRANTEE MANAGEMENT COMMENTS



Neighborhood Legal Services
of Los Angeles County

50 years of changing lives and transforming communities

October 31, 2019

Roxanne Caruso
Assistant Inspector General for Audit
Office of Inspector General
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
rcaruso@oig.lsc.gov

Re: RNO 805180 Comments to the Draft Report of Selected Internal Controls

Dear Ms. Caruso:

Neighborhood Legal Services of Los Angeles County (NLSLA) has reviewed the draft report from the Office of Inspector General, Legal Services Corporation on selected internal controls dated September 16, 2019. Below are NLSLA's responses in action to the report.

COST ALLOCATION

Recommendation 1: the grantee continues to work with LSC management to implement a compliant indirect cost allocation methodology that allocates indirect costs to grant awards equitably.

NLSLA continues to work with LSC management to implement a compliant indirect cost allocation methodology. NLSLA implemented a new cost allocation plan dated August 1, 2019 that is retroactive to January 1, 2019 to the extent possible and feasible given grantor requirements. The new plan has already been provided to OIG LSC and LSC OCE. The new plan pools all administrative costs into a new "888 Administrative Costs" fund source code and the administrative costs are allocated monthly. Costs that are of an administrative nature, benefit the entire organization, and are allowable, including information technology services, are now charged to this new Administrative Costs pooled fund.

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The plan includes a methodology to analyze the over / under-funded allocation and to allocate the remainder in an equitable manner based on LSC eligible case and advocacy activity to overall NLSLA case and advocacy activity to ensure that LSC only receives its proportional share based on the benefits received.

Recommendation 2: costs are allocated to LSC in a manner reasonably proportionate to the benefits received.

See response to Recommendation 1.

PAYROLL

Recommendation 3: implements a training program that emphasizes the importance of approving timesheets and NLSLA's policies and procedures.

NLSLA agrees with this recommendation and is in the process of implementing it. NLSLA has held several meetings with Supervisors to review our timekeeping policy, methodology and challenges with timely reviewing and approving time promptly. In addition, the new NLSLA Executive Director has re-enforced the supervisor time sheet approval obligation through email and in-person management meetings. We also continue to train staff on how to properly enter their time and train supervisors on how to review and timely approve their staff time. NLSLA timekeeping policy has been updated to allow for 3 business days (instead of only 2 business days) for supervisors to verify staff time. Supervisors have been advised that if they do not verify timekeeping by the end of the 3rd business day they will be subject to disciplinary action. NLSLA's percentage of staff time not approved in now less than 3% of all staff and continues to improve each pay period.

Recommendation 4: ensures that their time worked and paid time off are adequately recorded and reviewed by the Board of Directors in accordance with NLSLA policy.

After 26 years of dedicated leadership in legal aid advocacy, Neal S. Dudovitz stepped down as Executive Director, effective September 1, 2019. The NLSLA Board of Director appointed Yvonne Mariajimenez as NLSLA's new Executive Director. Neal remains on as Of Counsel and intends to retire at the end of the year. Mr. Dudovitz now enters all time worked on a contemporaneous basis in Legal Server, NLSLA's case management and timekeeping database. Ms. Mariajimenez continues to enter contemporaneous time each pay period.

Ms. Mariajimenez has discussed with the NLSLA Board Executive Committee the need to implement a new policy regarding the Board review of the Executive Director's timekeeping by January 1, 2020. It is currently NLSLA's policy that the Board President review the Executive Director's expense reimbursements on a quarterly basis. NLSLA

expects the Board to approve at its December 2019 meeting a policy that has the Board President also review the Executive Director's timekeeping on a quarterly basis.

CONTRACTING

Recommendation 5: valid and current contracts are written, signed, and maintained for all business arrangements.

NLSLA has implemented this recommendation. NLSLA now maintains valid and current written contracts that are signed by both parties and includes all business arrangements. All contracts identified during the visit as problematic are now current and have been provided to OIG LSC.

Recommendation 6: contracts fully document the agreed upon cost, payment, and other terms.

NLSLA has also implemented this recommendation and its' contracts now fully document the cost, payment and terms. All contracts identified as problematic during the visit have been updated and provided to OIG LSC.

Recommendation 7: contractors are paid according to the terms and descriptions of expected work to be provided and documented within the contract.

Consistent with this recommendation, NLSLA's contractors are now paid in accordance with terms and descriptions of expected work. Scope of work is included in all contract documents. Contractor invoices detail the work performed and are reviewed by the Project Supervisor prior to payment. All contracts identified as problematic during the visit have been updated and provided to OIG LSC.

Recommendation 8: any changes to contracted terms are to be approved by both parties and documented.

NLSLA agrees with this recommendation. NLSLA has reviewed all contracts to ensure they are updated with current contract terms and approved / signed by all respective parties. All contracts identified as problematic during the visit have been updated and provided to OIG LSC.

Recommendation 9: all competition actions and sole source decisions are documented and maintained with the contract files, as outlined in the grantee's policies and procedures.

NLSLA also agrees with this recommendation. NLSLA assess each service prior to contracting and / or renewing services, for necessity of competition versus sole source contracting. Sole source decisions are now documented and maintained with the contract

files. All contracts identified as problematic during the visit have been updated and provided to OIG LSC.

Recommendation 10: sole source justifications are made before the initiation of contracts.

NLSLA also agrees with this recommendation. NLSLA policy requires that it make sole source justifications before initiation of the contract. That justification is now fully documented and included in each contract file.

Recommendation 11: automatic renewals of contracts are eliminated, and long-standing contracts should be rebid every three to five years.

NLSLA agrees with this recommendation as well and is working to fully implement it. New and updated contracts no longer have automatic renewal terms whenever possible. Contracts that did or do have automatic renewal terms include an option to not renew the contract if notice is received within a specified time frame. NLSLA strives to place contracts out to bid on a periodic basis of three to five years based on program operations, needs of the program, contract costs, and overall satisfaction with the services provided. NLSLA continues to review its contracts and plan for future competitive bids of services as the contracts come up for renewal.

Recommendation 12: each contract contains adequate approvals from both parties and a clear date by which deliverables are due.

Consistent with this recommendation, all contracts now contain approvals from all respective parties involved. In addition, contracts contain a scope of work with clear deliverables and responsibilities of each party. Contractor invoices detail the work performed and are reviewed by the Project Supervisor prior to payment.

FIXED ASSETS

Recommendation 13: the updated policies and procedures for fixed assets, including property records and sensitive assets, are implemented and included in NLSLA's Accounting Policies & Procedures.

Consistent with this recommendation, NLSLA created a new Inventory & Asset Tracking Policy effective June 12, 2019 which has been provided to OIG LSC and LSC OCE. The policy is now included in NLSLA's Accounting Policies & Procedures.

Recommendation 14: the grantee follows its policies by tagging all capitalized physical assets.

NLSLA is in the process of implementing this recommendation through its new Inventory & Asset Tracking Policy including tagging all assets identified in the policy. NLSLA has

purchased an inventory tracking software, bar code scanner, charging docs, bar coding printer and bar code labels. We are setting up the back end of the database and are planning to complete the asset tagging by the end of the year. NLSLA is working on implementation with LSC OCE as well.

Recommendation 15: the property records include information to allow NLSLA to easily track assets.

NLSLA is in the process of implementing its new Inventory & Asset Tracking Policy including tagging all assets identified in the policy. Once the assets are tagged and scanned into the database, we will be entering the asset purchase attributes identified in our policy and consistent with the LSC Accounting guide. We are planning to complete asset purchase attributes data input into the property records by the end of the year.

Recommendation 16: fixed assets are listed individually in the property records.

Consistent with this recommendation, NLSLA intends to enter inventoried assets individually in the database with unique property records per item.

DISBURSEMENTS

Recommendation 17: We recommend the Executive Director ensure that unallowable costs are not allocated to LSC.

NLSLA agrees with this recommendation and has reviewed the 4 items identified as unallowable charges to LSC.

Two items relate to the 2017 Just Neighbors annual gala and fundraising event where NLSLA showcases the work of the program and community support for our advocacy. The gala incurred \$1,685 of charges for floral arrangements to decorate the room for the event and \$758 in total to purchase an award to the honorees. These expenses were charged to LSC in 2017 as fundraising expenses. NLSLA maintains that these are fundraising expenses and as such are allowable charges to LSC.

One item for \$30 related to local travel to NLSLA's annual holiday party in December 2017. Generally, expenses related to the annual Holiday party are not charged to LSC. However, staff do incur a business expense to travel locally to the party from their main office location as the party is in the afternoon and is a mandatory event for all staff that can travel to the location site. NLSLA maintains that the travel is business in nature and should be allowable as a charge to LSC. However, as the amount is nominal and infrequent in nature, NLSLA will update its policy to note that local travel expenses for the annual Holiday party are not to be charged to LSC.

One item rounded to \$38 was identified by OIG LSC as expenses for an ice cream social event and charged to LSC an unallowable expense. NLSLA has provided the supporting documents to OIG LSC that shows that the total expense was for \$94.15 of which \$57.08 related to the ice cream social and was charged to fund source code 005 – Unrestricted funds. The remainder of \$37.07, the \$38 identified above, relates to program office expenses for the Glendale administrative office at 1102 East Chevy Chase Drive. The documents note the expenses are for the program and not related to the ice cream social. These program office supply charges of \$37.07 were properly charged to LSC as an allowable program expense and NLSLA maintains that this was an allowable charge to LSC. See also our response to Recommendation 19 Store Cards below where this same charge is referenced again.

STORE CREDIT CARDS

Recommendation 18: policies and procedures are developed and implemented to govern the use of store purchase cards and/or credit cards.

NLSLA agrees with this recommendation. NLSLA currently does not have a company credit card; however, we do maintain store credit with certain office supply vendors through Store Cards as well as online purchases of office supplies. NLSLA agrees that it is a best practice to develop and implement policies and procedures related to store cards as well as online purchases and company credit cards. Before the end of the year, NLSLA will implement a store card and online purchase policy for the program and have employees that are authorized to purchase office supplies on behalf of the program review and sign the policy annually.

Recommendation 19: unallowable costs are not allocated to LSC.

NLSLA strives to review all charges prior to posting and ensure unallowable costs are not allocated to LSC. The report references \$37.07 of an ice cream social event improperly charged to LSC. As noted above in response to Recommendation 17, the total charge was for \$94.15 of which \$57.08 related to the ice cream social event that was properly charged to 005 – Unrestricted fund and \$37.07 for program office supplies at the Glendale Administrative Office were properly charged to 101 – LSC Basic Field grant, in accordance with the then administrative cost allocation policy. NLSLA maintains that this expense was allowable and properly charged to LSC.

GENERAL LEDGER & FINANCIAL CONTROLS

Recommendation 20: individuals responsible for making cash deposits do not have the ability to edit and delete data from the cash receipts log.

NLSLA agrees that it is a good policy to limit access to the cash receipts log. As discussed during the visit, NLSLA has a small accounting department and has implemented several

layers of internal control checks and balances to mitigate the risk of fraud and misappropriation of program assets. NLSLA understands why OIG LSC is concerned that fiscal staff have access to and can edit the electronic cash / check receipts log. NLSLA utilizes the electronic cash log for several purposes including coding of cash receipts, clarifying the purpose / description of the cash receipt, and cash flow management analysis; thus, access to the e-log is necessary for fiscal staff.

To better protect our data, NLSLA will set up an Office Managers electronic cash / check receipts log for all office managers to log receipt of checks and cash upon opening of the daily mail and any other receipts of program funds. Fiscal staff will not have editable access to the consolidated monthly log. Fiscal staff that prepare the bank reconciliation will compare and reconcile the Office Management cash and check receipt monthly log to the bank deposits and bank statement to ensure completeness and accuracy of the cash receipts received.

Recommendation 21: segregation of duties is implemented within the organization's cash receipt processes. The individual opening the mail should be initially accountable for cash received and responsible for restrictively endorsing checks. Also, the individual who prepares the deposit slips should not make electronic check deposits.

NLSLA will implement two changes to comply with this recommendation. All mail is now opened under dual control by the office manager and designated backup(s). The office manager and non-fiscal staff opening the mail under dual control will log all cash and check receipts into the new office manager cash /check receipt log. The checks will be restrictively endorsed and then forwarded to the fiscal department for preparation of the electronic deposit.

The accounting guide "suggests" that an individual other than the person who prepares the bank deposit slip should make cash deposits. Again, NLSLA has a small accounting department and several steps to review, reconcile, and ensure completeness to mitigate theft of cash receipts. NLSLA will continue to have one individual prepare the deposit slip and take the deposit to the bank or electronically deposit the check after review and approval of a second fiscal staff. The second fiscal staff will also provide the coding for the cash receipt and approve the first fiscal staff to enter the cash receipt into the accounting system. The Controller prepares the monthly bank reconciliation and the CFO/COO review the monthly bank reconciliation. Management and the Board review the financial statements including a statement of cash flow and revenue / expenditures compared to budget.

EMPLOYEE BENEFITS

Recommendation 22: We recommend the Executive Director provide training to NLSLA management and employees on the compensatory time policies and procedures.

NLSLA will implement this recommendation. NLSLA currently utilizes one system for staff to request and receive approval for paid time off, and another systems for staff to enter actual time worked and paid time off each pay period. While staff are aware of the paid time off approval policy, getting staff to follow the policy is challenging due to the separate systems. NLSLA has reiterated to the policy to staff and management. However, we are also exploring utilizing the Paid Time Off calculation module in legal server to calculate paid time off for staff. With the module, we plan to explore if Legal Server can program an advance approval mechanism for paid time off so that the request, approval, usage and balance calculation are all in one database. In the interim, NLSLA will continue to train staff and mangers on our policy to seek approval prior to utilization of paid time off.

Thank you in advance for your consideration of these responses and providing NLSLA an opportunity to strengthen its internal controls, policies and procedures.

Sincerely,



Yvonne Maria Jimenez
Executive Director