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ADVISORY

TO: EXECUTIVE DIRECTORS OF LSC PROGRAMS

FROM: Jeffrey E. Schanz
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DATE: December 03, 2015

SUBJECT: Compendium of Internal Control Audit Findings & Recommendations from Reports Issued October 1, 2013 through September 30, 2015

The purpose of this advisory is to summarize the findings and recommendations reported by the Office of Inspector General (OIG) of Legal Services Corporation (LSC) in internal control review audit reports issued October 1, 2013 to September 30, 2015.

Over the two fiscal years, the OIG issued 18 internal control audits containing 166 recommendations to improve internal controls at LSC grantees. Of the 166 recommendations, which in this report are categorized into 11 topics, the majority address issues with written policies and procedures, contracting, disbursements and fixed assets. The OIG also issued recommendations related to cost allocation, credit cards, derivative income, segregation of duties, vehicles, employee benefits and other issues.

We encourage management to use this information as a tool; the issues presented are frequent internal control weaknesses at LSC grantees and the recommendations are techniques for addressing them.

LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

COMPENDIUM OF INTERNAL CONTROL AUDIT FINDINGS & RECOMMENDATIONS FROM REPORTS ISSUED OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2015

Report No. AU 16-02
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DECEMBER 2015

INTRODUCTION

The purpose of this advisory is to summarize the findings and recommendations reported by the Office of Inspector General (OIG) of Legal Services Corporation (LSC) in internal control review audit reports issued October 1, 2013 to September 30, 2015. We encourage management to use this information as a tool; the issues presented are frequent internal control weaknesses at LSC grantees and the recommendations are techniques for addressing them.

The overall objective of OIG internal control audits is to assess the adequacy of selected internal controls in place at each grantee, as they relate to operations and oversight including program expenditures and fiscal accountability. The audits evaluate certain financial and administrative areas and test controls to ensure that costs are adequately supported and in compliance with the LSC Act and regulations.

In accordance with the Legal Services Corporation 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."

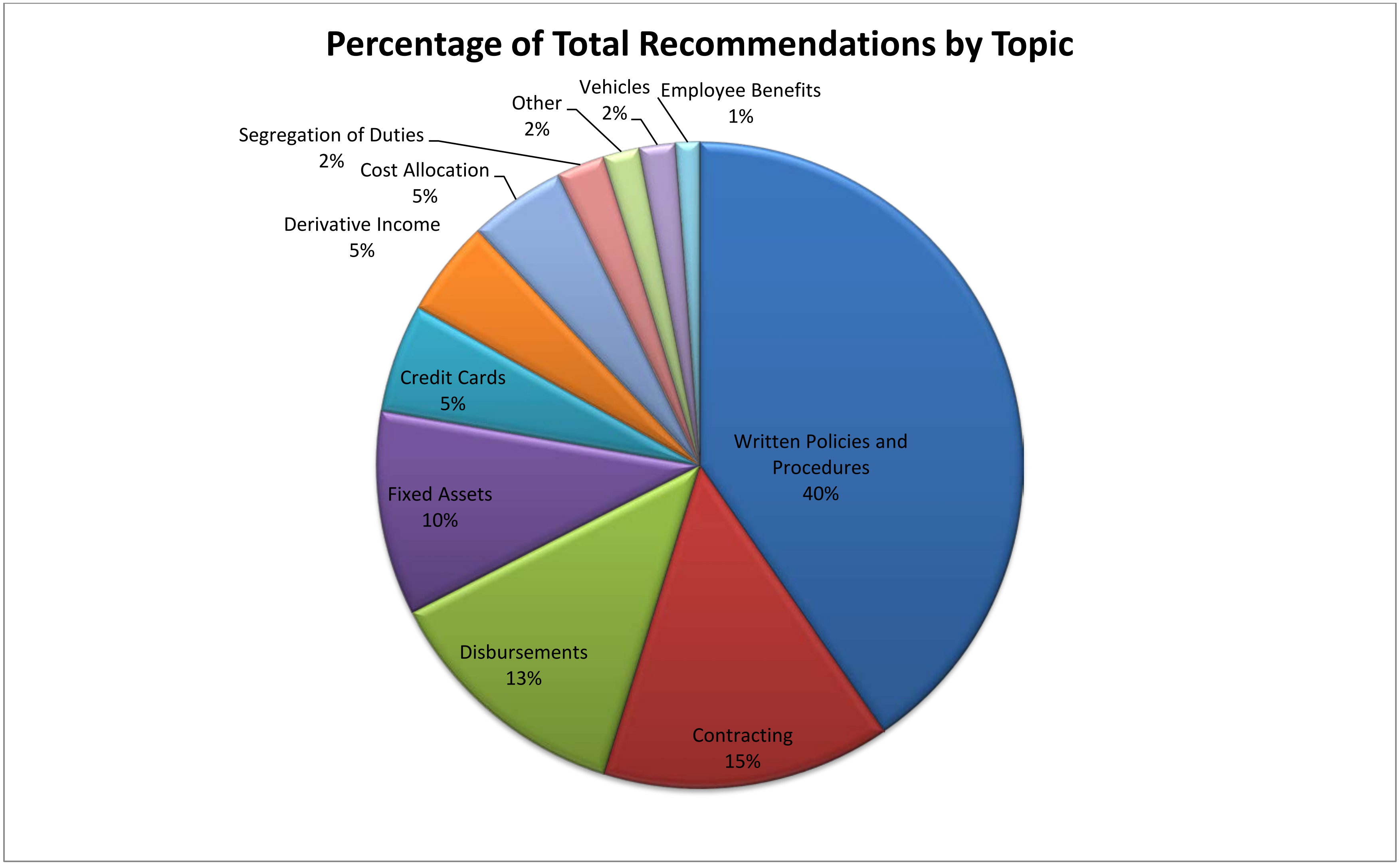
Over the two fiscal years, the OIG issued 18 internal control audits containing 166 recommendations to improve internal controls at LSC grantees. Of the 166 recommendations, which in this report are categorized into 11 topics, the majority address issues with written policies and procedures, contracting, disbursements and fixed assets. The OIG also issued recommendations related to cost allocation, credit cards, derivative income, segregation of duties, vehicles, employee benefits and other issues.

The following exhibits summarize the number of recommendations issued by the OIG from October 1, 2013 to September 30, 2015 by topic and the number of audit reports in which each topic appeared.

Exhibit 1: Summary of Recommendations by Topic

	Number of Recommendations	Number of Audit Reports
Written Policies and Procedures	**67**	**18**
Contracting	**24**	**12**
Disbursements	**21**	**10**
Fixed Assets	**17**	**10**
Credit Cards	**9**	**7**
Derivative Income	**8**	**6**
Cost Allocation	**8**	**6**
Segregation of Duties	**4**	**4**
Other	**3**	**3**
Vehicles	**3**	**1**
Employee Benefits	**2**	**2**
Grand Total	**166**	

Exhibit 2: Percentage of Total Recommendations by Topic



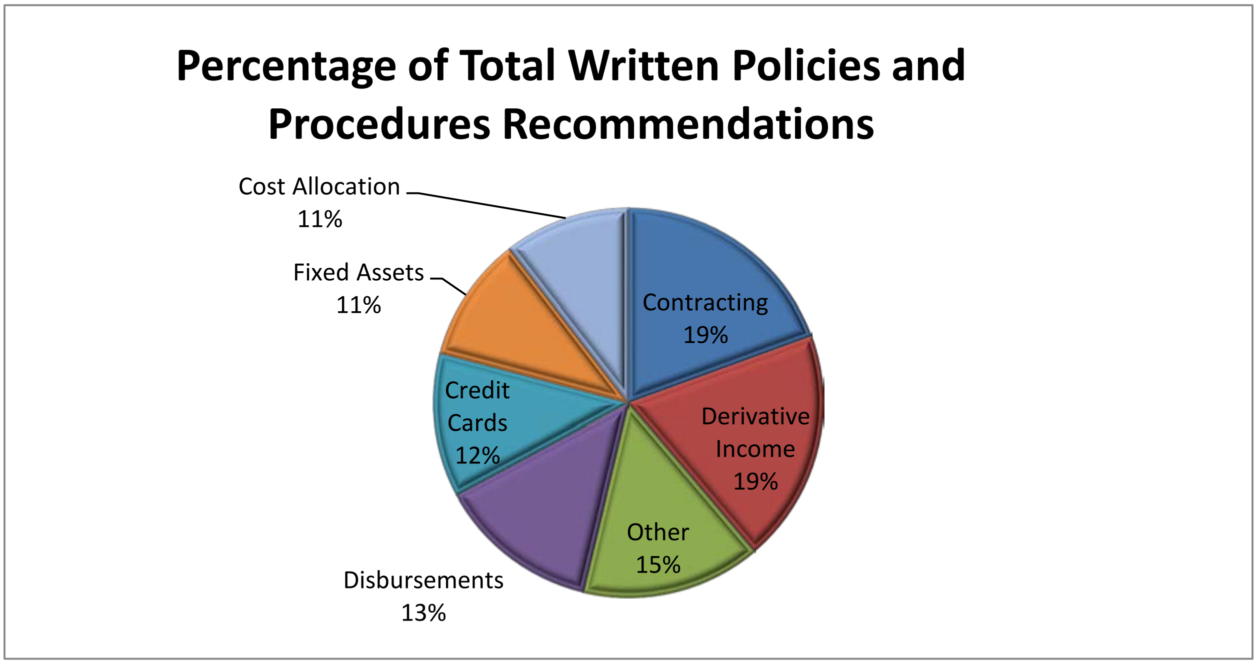
WRITTEN POLICIES AND PROCEDURES

In the audits issued from October 1, 2013 to September 30, 2015, the OIG presented 67 recommendations to develop or enhance written policies and procedures. In our audits, the OIG reviews and evaluates the adequacy of written policies and procedures pertaining to various areas including disbursements, contracting, credit cards, cost allocation, derivative income, fixed assets, employee benefits and internal reporting and budgeting. In our review of grantee accounting and administrative manuals over the course of the reporting period, the OIG concluded that written procedures in almost every area needed improvement. However, we issued the most recommendations regarding written policies and procedures for contracting, derivative income, disbursements and credit cards, indicating that these areas require particular attention.

Exhibit 3: Summary of Written Policies and Procedures Recommendations

	Number of Recommendations	Number of Audit Reports
Contracting	13	10
Derivative Income	13	11
Other	10	8
Disbursements	9	6
Credit Cards	8	5
Fixed Assets	7	7
Cost Allocation	7	6
Grand Total	67	

Exhibit 4: Percentage of Total Written Policies and Procedures Recommendations



Contracting

Over the two year period, the OIG issued 13 recommendations in response to weak contracting policies and procedures at ten different grantees.

In general, written policies and procedures for contracts were missing elements required by LSC's *Fundamental Criteria* of the Accounting Guide such as procedures for securing various types of contracts, competition requirements, approval authorities, dollar thresholds for approvals, documentation requirements to support contracting decisions and contract oversight responsibilities.

Commonly, the OIG found that grantees' written contracting policies did not outline policies for competition or for documenting deviations from approved contracting processes required by the *Fundamental Criteria*. Evidence, when available, did not distinguish between the different types of contracts, such as consulting, personal service and sole-source.

To address findings related to supporting documentation for contracting, the OIG recommended that Executive Directors should:

- ensure written policies and procedures for contracting address all required areas contained in LSC's *Fundamental Criteria* including contracting procedures for different types of contracts, competition, documentation and approval requirements; and
- ensure policies include procedures for deviating from the approved contracting process, such as when sole-source contracts are executed.

Derivative Income

From October 1, 2013 to September 30, 2015, the OIG issued 13 recommendations, to 11 different grantees, to develop or enhance written policies related to derivative income consistent with LSC regulations.

In some instances, grantees did not have any written policies in place for recording and allocating derivative income. In others, grantees had written policies and procedures, but they did not fully or accurately capture all the requirements contained in LSC regulations for different types of derivative income including rental income, attorney's fees and interest income.

Without formal written policies that mirror LSC requirements for all derivative income sources, it is difficult to ensure that such income is properly recorded and allocated back to their funding sources. To address the findings related to policies and procedures associated with derivative income, the OIG recommended that Executive Directors should:

- develop and document policies and procedures for recording and allocating derivative income to include the requirements set forth by LSC regulations including 45 CFR § 1630.12, 1609.6, 1609.4 and the Accounting Guide.

Disbursements

During the period, the OIG issued nine recommendations in six reports to improve written policies and procedures for disbursements. The recommendations addressed findings related to unallowable expenses, purchase approvals, securing and approving new vendors, segregation of purchasing duties, and duplicate payment controls.

The OIG recommended that Executive Directors should:

- revise the disbursement policy to include specific unallowable LSC expenses and ensure LSC funds are only used to pay LSC allowable costs;
- establish written policies and procedures for approving purchases. The policies should outline the appropriate level of management that must approve purchases before a commitment of resources is made;
- establish written policies for securing and approving new vendors. These policies should outline procedures for setting up new vendors in the accounting information system to ensure that only employees independent of the accounts payable function are allowed to create and edit vendor information; and
- establish a process whereby the purchasing function is adequately segregated so that employees responsible for placing orders do not also have accounting or receiving responsibilities.

Credit Cards

The OIG reported that written policies and or practices relating to credit cards were not documented appropriately at five grantees. We found that the grantees did not have adequate written policies in place governing issuance of credit cards, acceptable uses, spending limits and approvals for purchases related to travel.

To address findings related to credit card policies and procedures, the OIG recommended that Executive Directors should:

- enhance written policies for credit cards to include policies for issuance and procedures for acknowledging receipt;
- clearly delineate acceptable uses of credit cards;
- set spending limits for credit card purchases; and
- develop policies for approval of travel related expenses.

Cost Allocation

The OIG issued seven recommendations to develop, strengthen or update written policies regarding cost allocation. The majority of recommendations issued by the OIG advised grantees to ensure their policies and procedures for cost allocation detail the methodologies practiced by the program and address the requirements of 45 CFR Part 1630 and LSC's Accounting Guide.

The Accounting Guide states that the allocation formula should be adequately documented in writing with sufficient detail for the auditor, LSC OIG, GAO and others, to easily understand, follow and test the formula.

To address issues with documenting cost allocation methodologies, the OIG recommended that Executive Directors should:

- ensure that all cost allocation processes as practiced by the grantee are fully documented in writing;
- ensure that policies and procedures address the requirements of 45 CFR Part 1630 and LSC's Accounting Guide; and
- develop a written policy for allocating indirect costs that are prohibited by LSC regulations to funding sources other than LSC.

Fixed Assets

During the period, the OIG issued seven audits with findings related to written policies for fixed assets. Generally, we reported that written policies and procedures for fixed assets were in place, but did not address all the elements of the *Fundamental Criteria* and/or LSC's Property Acquisition and Management Manual (PAMM).

According to LSC *Fundamental Criteria*, property purchases should be recorded in a property subsidiary record and include the 12 items listed in the Section 3-5.4 (c) property record, which is also included in the LSC Accounting Guide at Appendix II, Description of Accounting Records.

LSC's PAMM, Section 3 requires LSC's prior approval in obtaining bids for the acquisition of personal property over $10,000 when using LSC funds. It also requires documenting the reasons when competitive quotes are not obtained. Section 4 requires that the grantee seek prior approval to use LSC funds to acquire real property and for expenditures for capital improvements.

To address findings related to cost allocation policies and procedures, the OIG recommended that Executive Directors should:

- ensure the fixed assets policies and procedures fully capture applicable requirements detailed in the LSC Accounting Guide; and

- develop written policies and procedures that implement Sections 3 and 4 of the LSC Property Acquisition and Management Manual.

Other

The OIG issued ten recommendations regarding written policies and procedures each of which was unique to a single grantee. The recommendations pertained to the following topics:

- internal reporting and budgeting;
- whistleblower protection policy;
- loan repayment assistance program;
- salary advances; and
- matching funds.

We recommended that the Executive Director develop and implement written policies and procedures in each area.

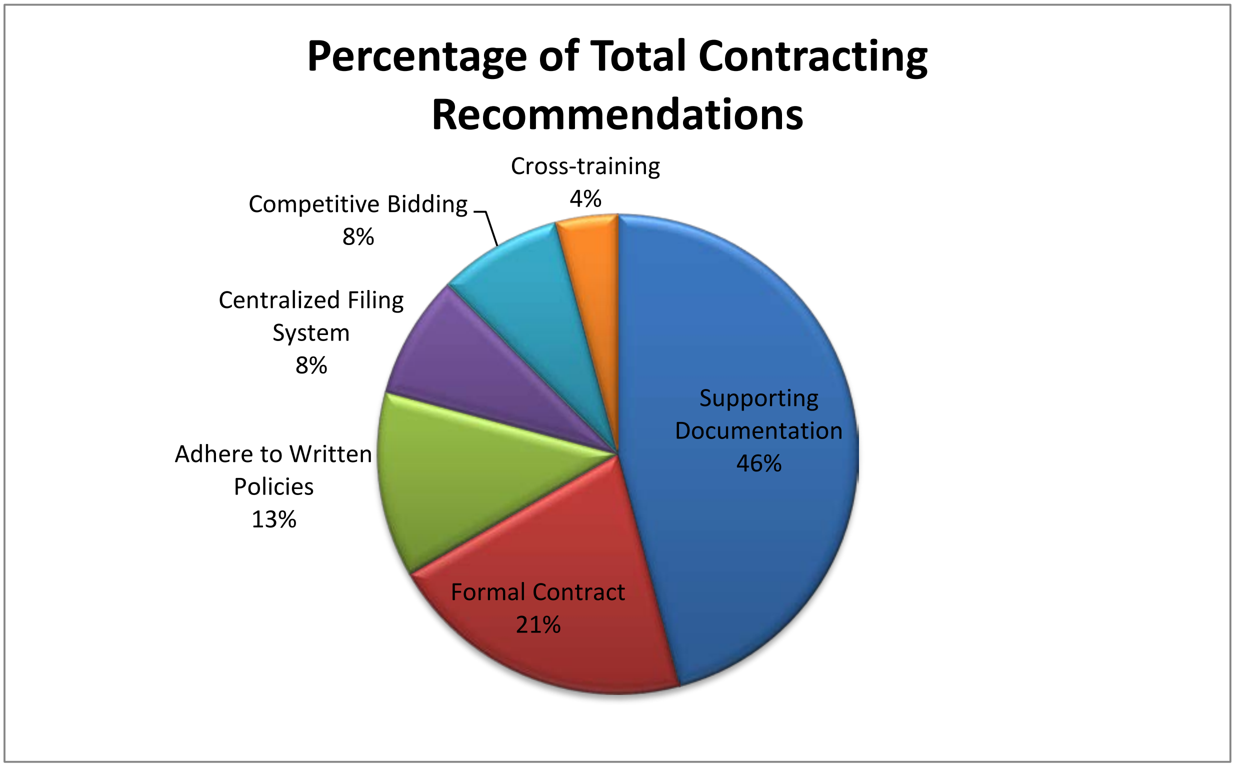
CONTRACTING

From October 1, 2013 to September 30, 2015, the OIG issued 24 recommendations regarding contracting. A majority of the recommendations related to ensuring contracts are sufficiently documented as required by LSC's *Fundamental Criteria*. Additionally, the recommendations addressed ensuring valid formal contracts are in place, adherence to written policies, competitive bidding, maintaining contract documentation in a centralized file and adequately training employees involved in the contracting process.

Exhibit 5: Summary of Contracting Recommendations

	Number of Recommendations	Number of Audit Reports
Supporting Documentation	**11**	**9**
Formal Contract	**5**	**3**
Adhere to Written Policies	**3**	**3**
Centralized Filing System	**2**	**2**
Competitive Bidding	**2**	**2**
Cross-training	**1**	**1**
Grand Total	**24**	

Exhibit 6: Percentage of Total Contracting Recommendations



<u>Supporting Documentation</u>

During the period, the OIG found that nine grantees did not sufficiently document the contracting process stipulated by the *Fundamental Criteria*. In certain cases, the contracting process and payments made to vendors conformed to LSC regulations and guidelines; however, supporting documentation justifying the process used to obtain the contracts, some of which were sole-sourced, did not exist or was not adequate. In detailed testing of contracts, the OIG found that grantees did not retain adequate evidence of contract actions. In multiple instances, files regarding contracts were missing required documentation including request for proposals, sole source justifications, evidence of competition and reasons for selection.

The <u>Accounting Guide</u>, Section 3-5.16 provides that management should identify the contracting procedures for the various types of contracts, dollar thresholds, and competition requirements. Contracts that should receive additional oversight include consulting, personal service, and sole-source. The process used for each contract action should be fully documented and the documentation maintained in a central file. Any deviations from the approved contracting process should be fully documented, approved, and maintained in the contract file.

To address findings related to supporting documentation for contracting, the OIG recommended that Executive Directors should:

- ensure all contract items such as request for proposals, sole source justifications, evidence of competition and reasons for selection, are retained;
- ensure that a centralized contract filing system is created whereby each individual contract file contains all pertinent documentary support related to the contract action, including the contract document, solicitation, receipt and evaluation of bids and the award of the contract; and
- familiarize staff with the LSC Accounting Guide contract criteria to ensure all requirements are met, including documenting contract process, rationale, and decisions made.

Formal Contracts

The OIG issued five recommendations related to formal contracts over the period of review. At several grantees, business arrangements recognized as contracts were not supported by valid, written contracts. At another, the actual dates of services rendered conflicted with the written agreement; the service period was prior to the contract date and the contract was not signed by the recipient.

Without a formal contract, the statement of work along with other contract terms cannot be adequately communicated and monitored, which may hinder management's ability to prevent or detect the risk of fraud, waste and abuse.

To address the findings, the OIG recommended that Executive Directors implement formal agreements describing the cost and terms of work for all contracted jobs. Additionally, they should ensure that invoices paid to contractors are supported by a valid contract within specified timeframes and rates.

Adhere to Written Policies

In three audits, we found that the grantees did not adhere to their own internal policies regarding contracting. In two cases, the organizations' current practices were not in accordance with their current contracting policy or LSC's *Fundamental Criteria*. To address findings that involve adhering to written policies, the OIG recommended that Executive Directors should:

- train staff to adhere to written policies and procedures for contracting; and
- ensure that contracting practices adhere to internal policies regarding contracting.

Centralized Filing System

Two of the recommendations the OIG issued pertain to the need for a centralized filing system. During audit site visits at two different locations, we found that contracts and related documentation were not centrally filed in one location. The lack of a centralized filing system could result in lost or misplaced contracting information as well as nonconformity with the *Fundamental Criteria*.

The OIG recommended that Executive Directors ensure that a centralized filing system is created whereby each contract file relates to a specific contract and contains all pertinent documents related to the solicitation, receipt, evaluation of bids, and the award of the contract.

Competitive Bidding

In two audits, the OIG found that grantees did not periodically evaluate or reopen contracts for bidding. The contracts dated back to 2002 in one instance and to 2008 in the other. The OIG recommended that the Executive Director should periodically evaluate the service agreements and potentially re-compete the contracts to ensure that the grantee was receiving the best price and service available.

To address this finding, the OIG recommended that the grantee reopen the contracts for bidding to the public to ensure they are receiving the best price and service obtainable.

Cross-training of Employees

The OIG found one instance where two contracts should have been competitively bid but were not because employees were not appropriately cross-trained. For both contracts, the purchasing agent was on vacation and the individual filling in for the purchasing agent did not require competitive bidding before placing the order.

The OIG recommended that the Executive Director should ensure that employees in the finance department are adequately cross-trained to handle the job duties and responsibilities of the different positions within that department.

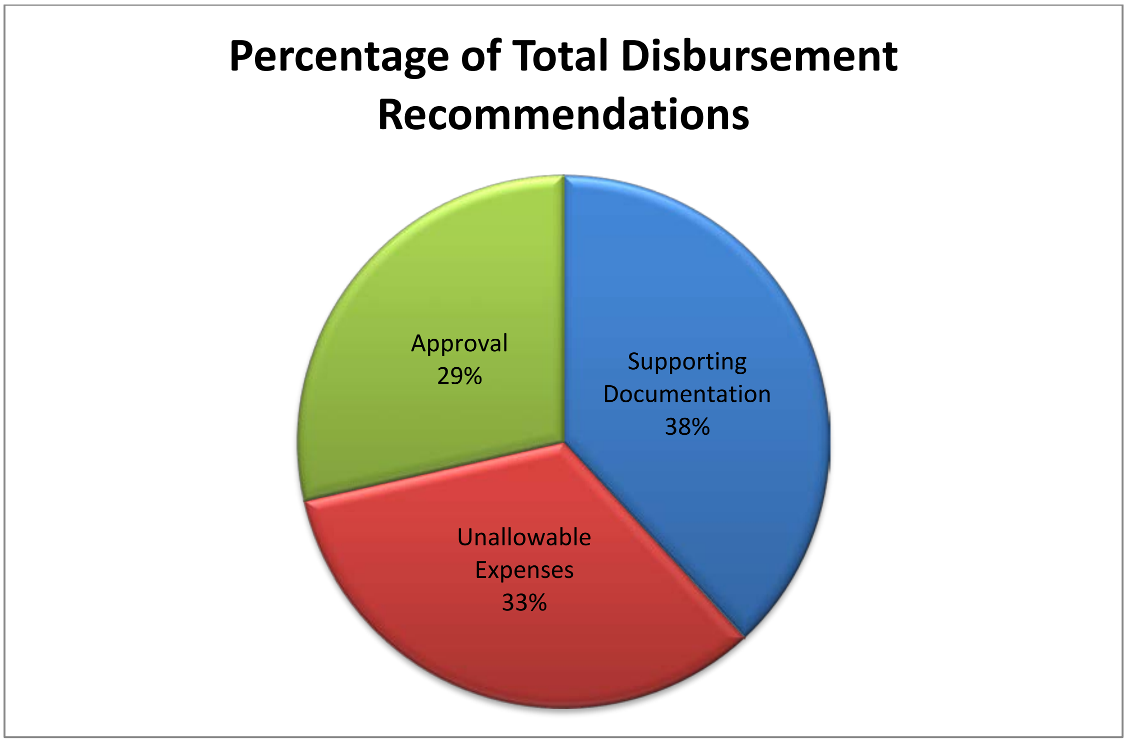
DISBURSEMENTS

In audits issued from October 1, 2013 to September 30, 2015, the OIG found that internal controls over disbursements needed strengthening. Over the two year period, the OIG issued 21 recommendations related to disbursements. Specifically, the findings and recommendations highlighted the need to improve documentation to support each transaction, obtain approvals for disbursements and prevent unallowable disbursements.

Exhibit 7: Summary of Disbursement Recommendations

	Number of Recommendations	Number of Audit Reports
Supporting Documentation	8	5
Unallowable Expenses	7	7
Approval	6	5
Grand Total	21	

Exhibit 8: Percentage of Total Disbursement Recommendations



Supporting Documentation

The OIG found that five grantees failed to provide sufficient documentation for at least a portion of the tested disbursements. The OIG referred $21,877 in questioned costs to LSC management as a result. Examples of missing supporting documentation included failing to attach purchase orders to invoices prior to payment, missing or incomplete contracts, invoices missing sufficient detail of work performed by vendors, and the inability to provide sufficient documentation for employee travel related reimbursements.

Without obtaining adequate supporting documentation for all disbursements, it is difficult to determine whether all expenditures are reasonable, necessary and allowable within LSC regulations and guidelines. Chapter 3-5.4(d), of the *Fundamental Criteria* states that disbursements require adequate documentation supporting the reason for each disbursement contained in the files.

To address findings related to supporting documentation for disbursements, the OIG recommended that Executive Directors should:

- ensure that adequate support and documentation is maintained for all expenditures prior to payment to ensure LSC funds are used only for authorized purposes;
- ensure that disbursements over a specified threshold amount are initiated by purchase order and that the purchase order is attached to the packing slip and invoice prior to payment; and
- invoices provide sufficient detail of goods rendered and services provided for each line item.

Unallowable Expenses

In seven audits, the OIG reported that grantees used LSC funds to pay for disbursements for unallowable purposes totaling approximately $16,119. Common unallowable disbursements included purchases for alcohol, flowers, membership dues to organizations in violation of 45 CFR §1627.4, credit card late fees, bar dues, and personal or unnecessary charges such as a training course held on a cruise ship and food for a retirement party.

The OIG found that in some of these instances, there was an existing cash disbursements policy within the grantee's accounting manual which reflected LSC regulations regarding unallowable purchases. However, either management failed to enforce the current policy, or the policy needed to be modified to prohibit disbursing LSC funds for purposes prohibited by the Accounting Guide and LSC regulations.

To address findings related to unallowable expenses the OIG recommended that Executive Directors:

- ensure that the written policies and procedures contained in their manuals prohibit the use of LSC funds for unallowable expenses, as defined by the Accounting Guide and LSC regulations, including, but not limited to purchases such as: alcohol, flowers, late fees, bar dues and membership fees; and
- ensure that LSC funds are used only to pay for allowable expenses.

Purchase Approval

During the two year period under review, the OIG issued six recommendations to five different grantees regarding purchase approvals. For example, in a review of 147 disbursement checks, we noted nine checks, totaling $27,994.36, for which the grantee created the purchase order after receipt of an invoice. The total amount allocated to LSC for these checks was $6,337.36.

Appropriate approval of disbursements ensures that expenditures are made with the knowledge at the correct level of authority. Section 3-5.4, Cash Disbursement, Managing Purchases, of the Accounting Guide states that approvals should be required at an appropriate level of management before a commitment of resources is made. It also states that criteria for purchases should be documented along with appropriate procedures.

In response to these findings, the OIG recommended that the Executive Directors of the grantees should ensure that management adheres to the grantee's established policies for purchasing, and ensure that orders are received, reviewed and approved prior to the purchase of goods and services.

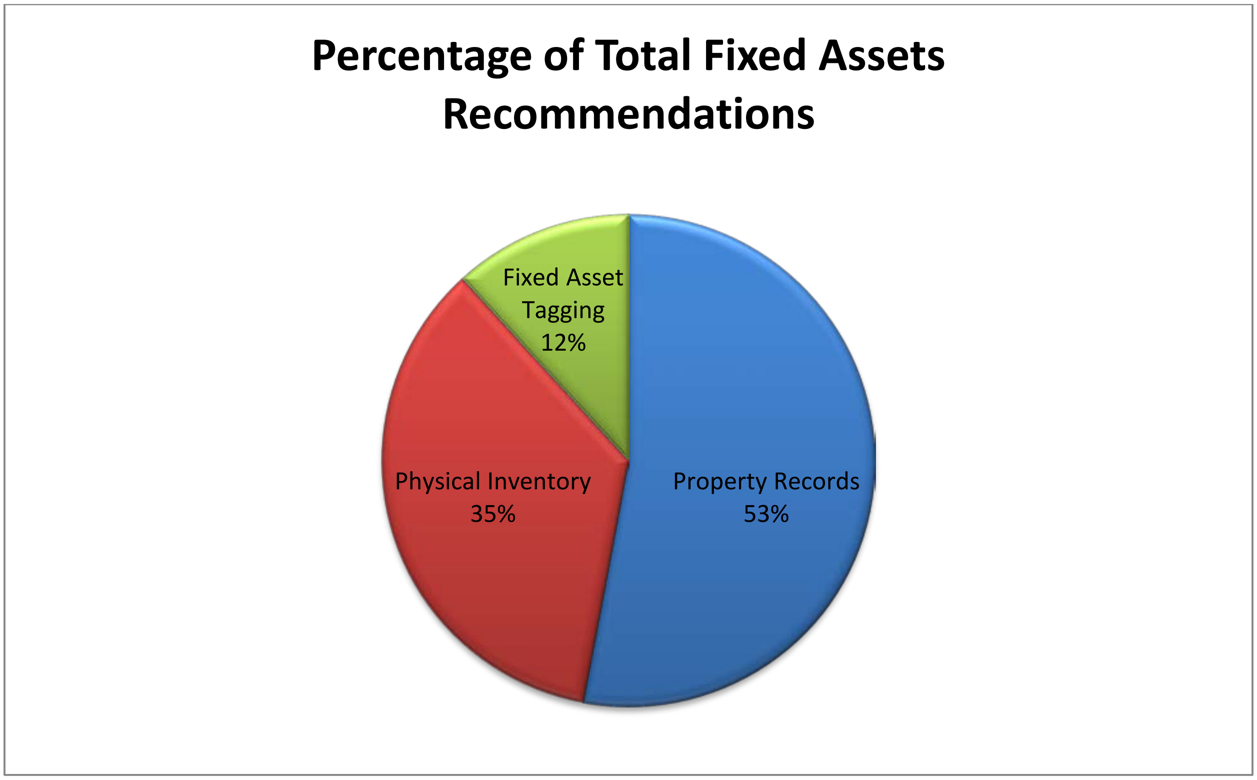
FIXED ASSETS AND IT EQUIPMENT

From October 1, 2013 to September 30, 2015, the OIG issued 17 recommendations regarding fixed assets and IT equipment. A majority of the recommendations related to ensuring property records are complete and contain the information stipulated by LSC's Accounting Guide. Additional recommendations issued during the period related to physical inventories of fixed assets and IT equipment and asset tagging.

Exhibit 9: Summary of Fixed Asset Recommendations

	Number of Recommendations	Number of Audit Reports
Property Records	**9**	**9**
Physical Inventory	**6**	**5**
Fixed Asset Tagging	**2**	**2**
Grand Total	**17**	

Exhibit 10: Percentage of Total Fixed Asset Recommendations



Property Records

During the two year period, the most prevalent recommendations related to updating property records for fixed asset and IT equipment. The audits found that the property records maintained by grantees were incomplete. They did not contain all the information stipulated by the Accounting Guide, including model and serial numbers, identification number, date of acquisition, location of property, check number used to pay for the asset, source of funds used for acquisition, cost of property/salvage value and condition of property. Generally, grantees maintained property records, but some of the fields required were missing.

We found that controls over non-capitalized IT equipment needed improvement. Although not capitalized, grantees should track IT equipment. The LSC Accounting Guide states that the grantee should be mindful of items that may contain sensitive information (i.e., a computer containing client confidential information) with values less than $5,000, as well as the need to inventory these items and dispose of them properly. In two instances, the OIG found that grantees did not keep adequate records of IT equipment; one grantee was not able to locate IT equipment listed on the property records.

To address issues with inadequate tracking of fixed assets and IT equipment, the OIG recommended that Executive Directors should:

- update the property records to include all fields required by the LSC Accounting Guide; and
- enhance the current tracking system over non-capitalized assets to include IT equipment.

Physical Inventory

The OIG issued six recommendations related to physical inventories of fixed assets and IT equipment. Four related to conducting and documenting the results of physical inventories of fixed assets and IT equipment. We found that grantees either had not conducted physical inventories, had not conducted them according to the schedule outlined in their written policies or had not adequately documented the results of the physical inventory. Two recommendations pertained to reconciling physical inventory counts to property records. The grantees performed the inventories, but did not provide evidence that the results were reconciled to the property records.

For property control purposes, the Accounting Guide states, a physical inventory should be taken and the results reconciled with the property records at least once every two years.

To address findings related to physical inventories of fixed assets and IT equipment, the OIG recommended that Executive Directors should:

- conduct physical inventories of fixed assets and IT equipment at least once every two years and document the results;
- ensure that the results of the physical inventory are reconciled to the property records and investigate any differences between quantities determined by the physical inspection and those shown in the accounting records.

Fixed Asset Tagging

The OIG found that two grantees did not affix property tags to assign a property control number to all fixed assets. The failure to properly tag assets may lead to inefficiency in properly tracking and accounting for fixed assets.

We recommended that the Executive Directors ensure that all fixed assets are properly tagged.

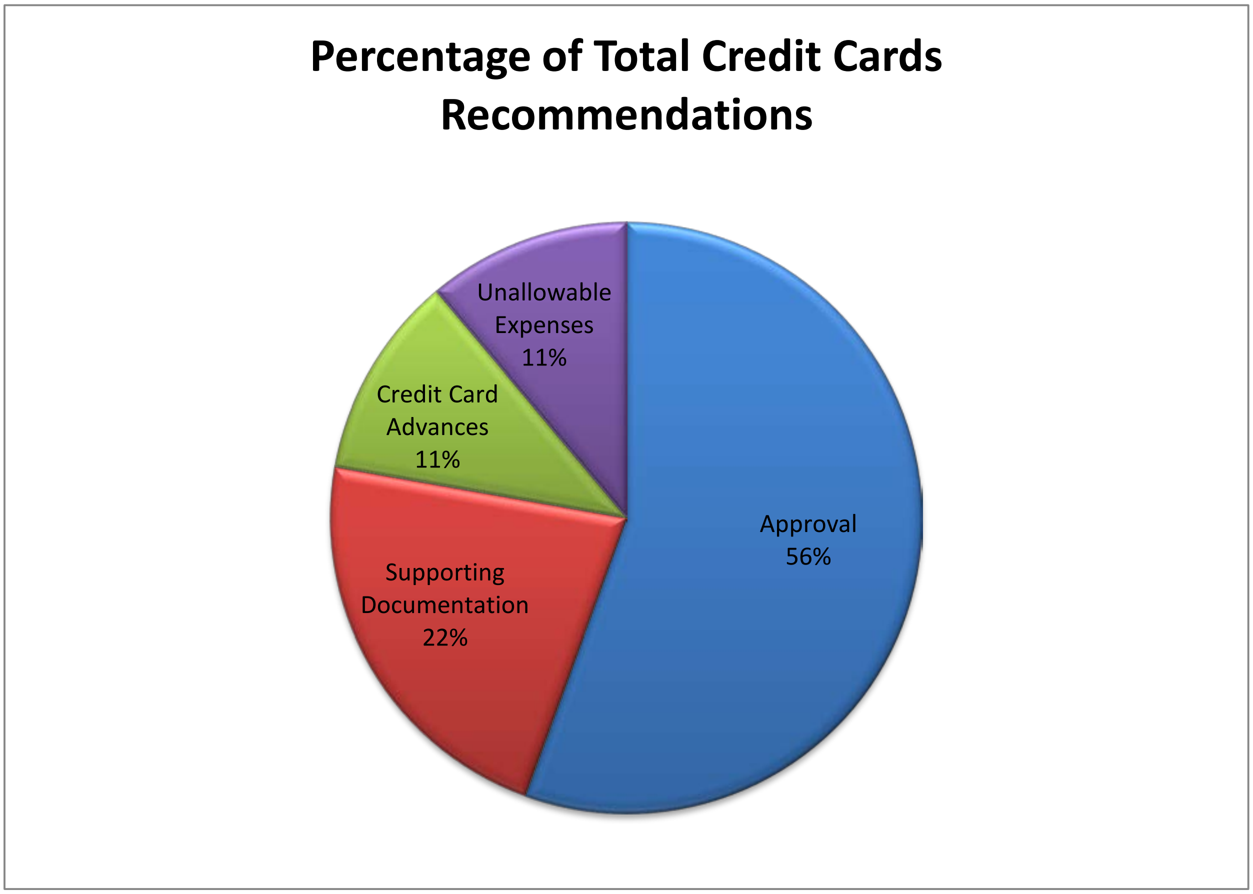
CREDIT CARDS

From October 1, 2013 to September 30, 2015, the OIG issued nine recommendations regarding credit cards. The findings included issues with approval of credit card transactions, documentation to support credit card charges and issuance, unallowable purchases and credit card advances.

Exhibit 11: Summary of Credit Card Recommendations

	Number of Recommendations	Number of Audit Reports
Approval	**5**	**5**
Supporting Documentation	**2**	**2**
Credit Card Advances	**1**	**1**
Unallowable Expenses	**1**	**1**
Grand Total	**9**	

Exhibit 12: Percentage of Total Credit Card Recommendations



Approval

The OIG found that credit card transactions were not appropriately approved at five of the grantees. In one instance, the OIG determined the Executive Director's credit card transactions were self-approved. In another audit, the OIG found 12 transactions, totaling $17,839, which did not have the requisite approval. The other audits found multiple credit card transactions that were either not approved or not approved prior to payment.

The *Fundamental Criteria* section 3-5.4 states that approval should be required at an appropriate level of management before resources are committed. Failure to follow the purchase approval process may result in purchases made without the knowledge of appropriate management, at unacceptable prices or terms or for unauthorized uses.

In response to these findings, the OIG recommended that Executive Directors should ensure credit card transactions have the requisite approval at the appropriate level of management and that approvals are obtained prior to payment. Regarding the Executive Director who approved her own credit card purchases, the OIG recommended that the credit card transactions be reviewed and approved periodically by someone other than herself, preferably the Board of Directors.

Supporting Documentation

The OIG issued two recommendations related to the documentation supporting credit card transactions and issuance. In one instance, documentation supporting credit card transactions was not maintained in a centralized location and some electronic receipts were not included with supporting documentation. In the other instance, the grantee did not keep adequate records pertaining to credit cards issued to staff members. Management did not require employees, to whom the grantee issued the credit cards, to sign acknowledgement of receipt.

Documentation supporting all disbursements shall be contained in the files according to the Accounting Guide. Inadequate documentation to support the issuance of credit cards to users and for credit card charges could result in unauthorized disbursements.

The OIG recommended that the Executive Directors should:

- ensure that all supporting documentation for credit card charges is included with each credit card statement prior to payment and that the documentation is maintained in one central location; and
- require staff to sign an acknowledgement of receipt of credit cards.

Unallowable Expenses

We found unallowable expenses totaling $643, charged to credit cards and allocated to LSC, at one grantee. They included purchases for personal use, credit card fees and membership dues.

45 CFR Part 1630 provides that expenditures by a grantee be reasonable and necessary for the performance of the grant or contract and be adequately documented. 45 CFR §1627.4 provides that grantees may not use LSC funds to pay dues to any private or nonprofit organization other than dues mandated as a requirement of practicing a profession by a governmental organization.

The grantee had written policies in place prohibiting such expenditures. The OIG recommended that the Executive Director address these issues by ensuring that policies and procedures for purchasing are followed.

Credit Card Advances

The OIG found that one grantee made five cash advance transfers to cover payroll overdrafts amounting to $13,806. Grantee management attributed the transfers to lack of training on payroll processing procedures. As a result of the transfers the grantee was charged bank fees. Although these transactions were not charged to LSC funds, the OIG recommended that the grantee address the issue by ensuring staff is properly trained in processing payroll to prevent further occurrences in order to ensure that the grantee does not incur avoidable bank fees in the future.

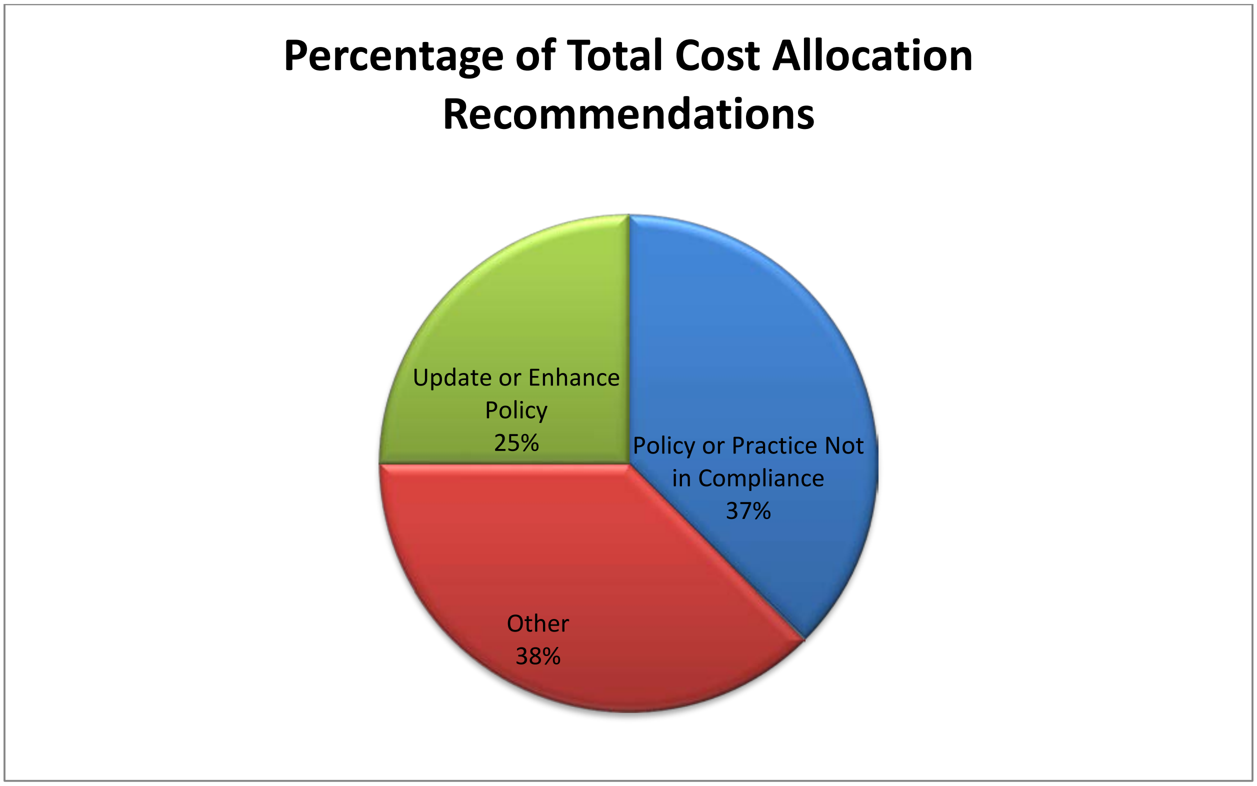
COST ALLOCATION

From October 1, 2013 to September 30, 2015, the OIG issued eight recommendations regarding cost allocation. The recommendations address findings related to the cost allocation methodologies in place at eight different grantees.

Exhibit 13: Analysis of Cost Allocation Recommendations

	Number of Recommendations	Number of Audit Reports
Policy or Practice Not in Compliance	**3**	**3**
Other	**3**	**3**
Update or Enhance Policy	**2**	**2**
Grand Total	**8**	

Exhibit 14: Percentage of Total Cost Allocation Recommendations



At three grantees, the OIG reported that cost allocation practices were not in compliance with LSC regulations. In two reports, we found that the grantees' cost allocation policies were outdated or needed to be enhanced to fully comply with LSC requirements. In three audits, we found that the grantees' written policies and allocation practices were generally sound, but we noted specific and unique issues with the allocations. In one instance sufficient supporting documentation of the cost allocation formulae was not retained. At another, the wrong Census data was used to determine allocation percentages. At the third, we identified an issue in the grantee's accounting for cost allocation that could have impacted the accuracy of financial reporting.

To address the findings common to multiple grantees, the OIG recommended that Executive Directors should:

- establish a fair, transparent, consistent and systematic cost allocation methodology in accordance with LSC requirements;
- establish an allocation system that ensures that allowable indirect costs are divided by an equitable distribution base and allocated to individual grant awards accordingly;
- ensure that all cost allocation processes are documented in writing; and
- adhere to written policies and procedures for cost allocation.

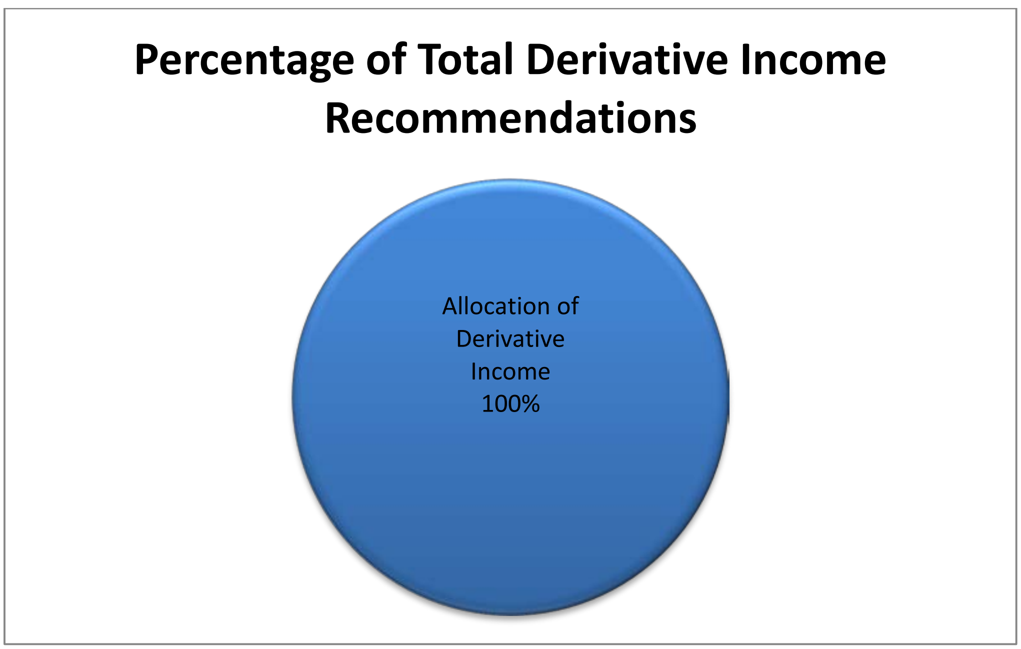
DERIVATIVE INCOME

The OIG issued eight recommendations regarding derivative income to six different grantees over the past two fiscal years. The recommendations are in response to issues with the manner in which the grantees allocated rental income, attorney's fees, interest income and State Supplemental Security Income reimbursements. In six instances, the OIG reported that grantees did not account for derivative income properly and allocate it back to the revenue source to which the expense that generated the income was allocated, in accordance with LSC requirements. In total, we referred approximately $273,801 in questioned derivative income to LSC management.

Exhibit 15: Analysis of Derivative Income Recommendations

	Number of Recommendations	Number of Audit Reports
Allocation of Derivative Income	**8**	**6**
Grand Total	**8**	

Exhibit 16: Percentage of Total Derivative Income Recommendations



In two instances, the OIG reported that a grantee did not have a system in place to track derivative income and facilitate its allocation.

To address the findings, the OIG recommended that Executive Directors should:

- develop a system to track and allocate derivative income; and

- ensure that derivative income is allocated back to the revenue source to which the expense that generated the income was allocated.

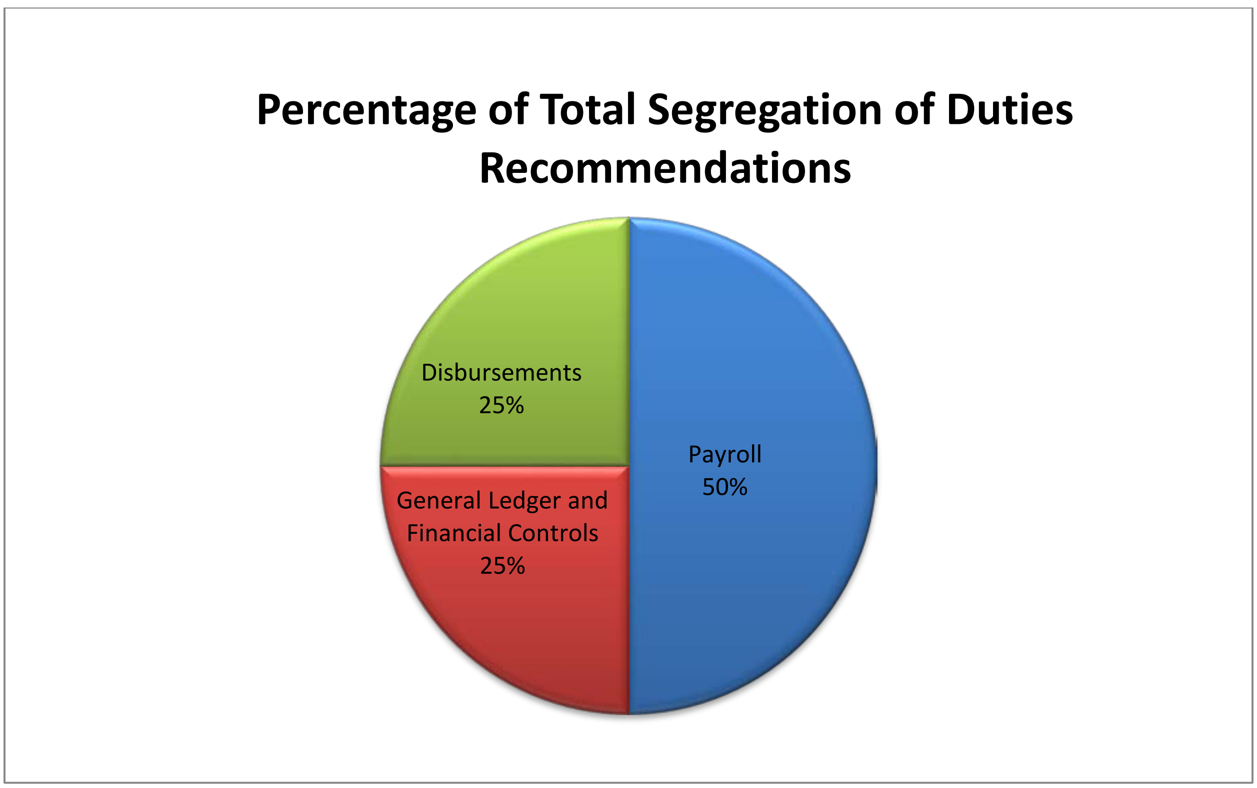
SEGREGATION OF DUTIES

During the past two fiscal years, the OIG issued four recommendations related to segregation of duties. At two different grantees we found that duties related to payroll were not appropriately segregated. At one grantee, we found that duties related to disbursements were not segregated. At another, we found that controls over access to the grantee's accounting system needed to be established and segregated.

Exhibit 17: Analysis of Segregation of Duties Recommendations

	Number of Recommendations	Number of Audit Reports
Payroll	**2**	**2**
General Ledger and Financial Controls	**1**	**1**
Disbursements	**1**	**1**
Grand Total	**4**	

Exhibit 18: Percentage of Total Segregation of Duties Recommendations



In each instance, we recommended that the Executive Director ensure that duties are appropriately segregated or develop compensating controls, such as independent monitoring, to mitigate risk of loss or fraud.

VEHICLES

In one audit report, we issued three recommendations related to use of a grantee vehicle. This issue was unique to a single LSC recipient. The OIG recommended that the grantee's Board of Directors determine whether use of the vehicle was a benefit they wished to give the employee as part of their overall compensation. If so, the OIG recommended that the grantee account for the personal portion of vehicle expenses, adequately document vehicle usage and ensure that no vehicle related expenses resulting from personal use are charged to LSC funds.

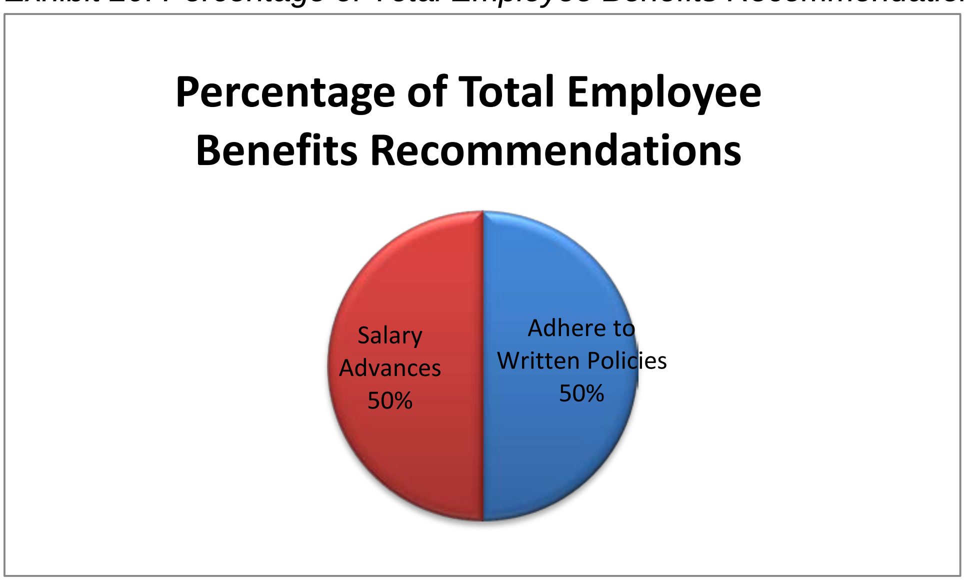
EMPLOYEE BENEFITS

From October 1, 2013 to September 30, 2015, the OIG issued two findings regarding employee benefits. In one instance, we reported that a grantee had written employee benefits policies, but management overrode the written policies. In the other, we found that a member of the executive staff received more than the maximum number of salary advances allowed pursuant to the grantee's salary advance policy.

Exhibit 19: Summary of Employee Benefits Recommendations

	Number of Recommendations	Number of Audit Reports
Adhere to Written Policies	**1**	**1**
Salary Advances	**1**	**1**
Grand Total	**2**	

Exhibit 20: Percentage of Total Employee Benefits Recommendations



To address the findings, the OIG recommended that Executive Directors should:

- update written benefits policies and include language that allows management to grant exceptions to benefits policies, at their discretion, to accommodate organizational needs; and
- ensure that all staff receive only the allowed number of salary advances in accordance with internal written policy.

OTHER RECOMMENDATIONS

During the two years included in this review, the OIG issued one recommendation each regarding client trust funds, loan repayment assistance programs and general ledger and financial controls. Each recommendation addressed a finding unique to a single grantee. These recommendations were not common among grantees, but may be informative.

The OIG recommended that Executive Directors should:

- strengthen internal controls over client trust fund accounting;
- ensure that cash receipts are recorded in a log used specifically for that purpose; and,
- determine if non-attorney staff should participate in student loan repayment assistance programs, and if so, establish a policy authorizing the program.

CONCLUSION

The OIG recognizes that in many instances wherein we made recommendations, practices are more advanced than the written policies and procedures, a common occurrence in a busy work environment. Notwithstanding, written policies and procedures are an integral part of a grantee’s internal control structure that encompasses the organizations’ leadership, emphasis on performing high quality work, and the organizations’ policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements.