Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660 (p) 202.337.6616 (f)
www.oig.lsc.gov

December 20, 2016

Mr. Brian Gorman
Executive Director
Southwestern Pennsylvania Legal Services, Inc.
10 West Cherry Avenue
Washington, PA 15301

Dear Mr. Gorman:

Enclosed is the Office of Inspector General's (OIG) final report for our audit on Selected Internal Controls at Southwestern Pennsylvania Legal Services, Inc. Your comments are included in the final report as Appendix II.

The OIG considers the proposed actions to address all recommendations as responsive. The proposed actions to revise and update the Financial Management Policies should correct the issues identified in the report. However, all thirteen recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation provided.

Please provide us with your response to close out the thirteen open recommendations along with the revised Financial Management Policies within six months of the date of this final report. We thank you and your staff for your cooperation and look forward to receiving your submission by June of 2017.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

LSC
America's Partner For Equal Justice

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings,
Vice President for Grants Management

Southwestern Pennsylvania Legal Services, Inc.
Adam J. Belletti, Esq.
Board Chairperson

Sent by E-mail to Board of Directors
Bobbi Suter
Samuel Theiner, Esq.
Amber Shipley, Esq.
Mark D. Persun, Esq.
Linda A. Bergman
Joshua Camson, Esq.
Mary R. Bates, Esq.

LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

FINAL REPORT ON SELECTED INTERNAL CONTROLS

SOUTHWESTERN PENNSYLVANIA LEGAL SERVICES

RNO 339080

Report No. AU 17-01

December 2016

www.oig.lsc.gov

TABLE OF CONTENTS

INTRODUCTION...1
BACKGROUND...1
OBJECTIVE 2
AUDIT FINDINGS... 2

Contracting...2
Recommendation 1 4

Disbursements...4
Recommendation 2 6
Recommendation 3 6
Recommendation 4 6

Credit Cards 6
Recommendation 5...7
Recommendation 6 7

Derivative Income...8
Recommendation 7...9
Recommendation 8 9

Segregation of Duties.....................9
Recommendation 9...9
Recommendation 10 9

Fixed Assets 1O
Recommendation 11 11
Recommendation 12 11
Recommendation 13 11

Building Ownership...12

SUMMARY OF GRANTEE MANAGEMENT COMMENTS........................ 13
OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS............ 13
APPENDIX I - SCOPE AND METHODOLOGY 15
APPENDIX II - GRANTEE MANAGEMENT COMMENT$........................ 17

INTRODUCTION

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

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." 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

Southwestern Pennsylvania Legal Services (SPLAS) is a nonprofit corporation that provides legal assistance and representation for the area's low-income citizens. In 1997, SPLAS joined with Neighborhood Legal Services (NLS) and Laurel Legal Services (LLS) to establish the Southwestern PA Legal Services Consortium. Together, these programs serve 14 counties.

According to the audited financial statements for July 2014 through June 2015, LSC provided 22 percent of the grantee's funding, amounting to $419,754. The other major funder is the Pennsylvania Legal Aid Network (PLAN).

OBJECTIVE

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

AUDIT FINDINGS

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

CONTRACTING

Our review of SPLAS' written policies and procedures for contracting determined the grantee's need to enhance its policies to adhere to the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide*.* The OIG reviewed 10 vendor files and tested them for compliance with the *Fundamental Criteria*. The following areas needed improvement:

Written Policies

The grantee's Financial Management Policies (Policies) do not include policies and procedures for identification of the various contract types, dollar thresholds, and processes and procedures necessary to administer contracts. The Policies also do not include details on the processes involved in competitive bidding and selection of vendors.

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

The Fiscal Manager was not sure why all the required policies were not included in the SPLAS manual. Contracting is a high risk area for potential abuse and fraud. Without adequate policies and procedures over all types of contracts, the contracting process may result in the waste of scarce funds and subject the grantee to questioned costs proceedings.

Inadequate Contracting Documentation

Out of 10 vendor files, 7 contained inadequate contracting documentation.

- Two of the files, one for janitorial contract services and one for IT services, did not have an agreement or contract on file for the audit period.
- Four had written contracts in place that did not have a contractual period noted within the contract.
- One had supporting documentation for contracted fees that did not agree with the invoices tested.

The LSC *Fundamental Criteria*, Section 3-5.16, requires the statement of work be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that deliverables are completed.

According to the Fiscal Manager, SPLAS was having trouble finding a cleaning company due to the reputation of the prior Executive Director. Therefore, SPLAS went outside the area to find a cleaning service. A SPLAS Program Manager also stated that one computer vendor threatened to cancel service, therefore another vendor had to be found quickly. The other contracts without contractual periods were old and not rebid.

Proper documentation helps ensure that approved contracts follow all established procedures and all deliverables are obtained.

Inadequate Bidding Documentation

Nine of the contracts reviewed had inadequate documentation supporting the contract actions. Grantee management mentioned that some contracts were competitively bid, however they did not have the bids on file. The grantee also mentioned some contracts were very old, the actual bids could not be located and the contracts have never been opened for re-bid. There were also sole sourced contracts that did not have sole source justifications documented in the file.

The LSC *Fundamental Criteria*, Section 3-5.16, stipulates that all documentation supporting competition and the process used for each contract action should be maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved and maintained in a contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that they are complete.

According to the Fiscal Manager, some of the staff who work on contracts have meetings with the Fiscal Manager to discuss the contracts; however, the staff maintain the contracts and bidding documentation.

As not all contracts are the same, for large contracts, competition helps ensure the best value for the grantee and proper documentation helps ensure that an approved contract has followed all established procedures.

Contracts Not in Centralized Location

During our review of contracts, we found that contracts were not kept in a central location. Contracts were received from various SPLAS staff. The *Fundamental Criteria*, 3-5.16 stipulates that the process for each contract action should be documented and maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved and maintained in the contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that deliverables are completed.

The Fiscal Manager stated some staff members/attorneys work with grants that require some contracted vendors and these staff members keep their contracts. Without a centralized filing system, the grantee cannot ensure that the approved contract followed all established procedures, resulting in a possible loss of contracting documentation.

Recommendation 1: The Executive Director should ensure that:

a. existing written policies for contracts are strengthened and revised to adhere to the LSC *Fundamental Criteria*.
b. contracts for services (janitorial, etc.) are fully documented with periods of performance and are reviewed periodically to ensure the written terms are defined and current.
c. the process for each contract action is fully documented in writing such as sole source justification and documentation of competition, if competitively bid.
d. a centralized filing system for all contracts is maintained, where a file is established for a specific contract containing all pertinent documents related to the solicitation of bids, including receipt and evaluation of bids, vendor selection or sole source justification, and the award of the contract. For those contracts related to certain grants with staff attorneys, a copy can be provided to those staff.

DISBURSEMENTS

OIG review of SPLAS' written policies over disbursement transactions found that they are mostly comparable to the *Fundamental Criteria* contained in the LSC Accounting Guide. However, the grantee needs to enhance them to include policies relating to use of the EZ pass. The OIG selected 81 disbursements comprised of 107 transactions totaling $86,037. It was determined that all disbursements tested were allowable; however, some lacked appropriate approvals and sufficient documentation.

Written Policy

Although the grantee appears to have adequate controls over the use of its EZ Pass, there were no written policies and procedures in the Policies. The EZ Pass is maintained by the Executive Director and provided to attorneys via verbal approval. The Fiscal Manager enters the name of the staff member using the pass on the Pennsylvania Turnpike website with the make and model of the car. The employee uses the pass for the local travel toll and the website records the toll. At any time, the Fiscal Manager can access the website and generate a report to see users (cars and number tags) who have used the EZ pass for any given period.

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

The Fiscal Manager was not sure why the manual was not updated with this policy. Failure to have written policies and procedures over the use of the EZ pass may lead to misuse of resources.

Inadequate Approval

Four disbursements totaling $5,713 had no documented pre-approvals. These included one disbursement for office supplies amounting to $794 and three disbursements relating to other purchases totaling $4,919.

The LSC Accounting Guide Chapter 3, Section 3-5.4(a), states that "Approvals should be required at an appropriate level of management before a commitment of resources is made."

According to the grantee's Policies, requests for purchases must be made to the Executive Director prior to ordering. Initial requests shall be made to the Fiscal Manager who conveys such requests to the Executive Director for review and approval. Upon approval, such items may be purchased. The only exception to the policy is the purchase of routine office supplies, if less than $750, which can be ordered by the Fiscal Manager without approval of the Executive Director.

The Fiscal Manager stated she gets verbal pre-approval from the Executive Director for all purchases, but the OIG was not able to confirm the approval since there is no documentation maintained.

Failure to obtain documented prior approval for purchases may result in purchases made without the knowledge of appropriate management or at unacceptable prices or terms.

Inadequate Supporting Documentation

Thirteen disbursements totaling $8,424, related to IT and janitorial services, did not have contracts in place to support recurring monthly payments within the period of review. This finding and its recommendation have been fully addressed in the contract section of this report.

- Nine disbursements with 10 transactions totaling $3,332 did not have contracts or agreements on file.
- Four disbursements, totaling $5,092, relating to one vendor did not have a valid contract. The contract on file was signed in 2003 but has no rates or pricing schedule specified within the contract.

Three-Way Match Concept Not Performed

The grantee does not perform the three-way match which compares the purchase order to the packing slip/receiving document and the packing slip/receiving document to the invoice. The Fiscal Manager places the orders; the goods are delivered to the respective offices; the branch offices compare the goods received to the packing slip; the branch office forwards the packing slip to the Fiscal Manager; and the Fiscal Manager compares the invoice received with the packing slip before processing payment. The packing slip is not retained with the invoice – it is discarded.

The LSC Accounting Guide stipulates that receipts for goods and the accuracy of invoices should be verified and documented.

The Fiscal Manager stated that purchase orders are not used by the grantee. She usually places the orders a day or two before the invoices come in and makes a mental note of the order. When reviewing the invoice, she compares it with her mental recollection of the order. Without adequate internal verification, cash may be disbursed for goods and services not received, in advance of receipt, or in the wrong amount.

Recommendations: The Executive Director should:

Recommendation 2: ensure policies governing the use and approval process of the EZ pass are documented in the Policies.

Recommendation 3: update written policies to ensure adequate pre-approvals are obtained and documented for purchases, and ensure documented approvals are retained for office supplies over $750.

Recommendation 4: develop written policies for purchase orders and ensure orders made for purchases are documented and compared to invoices and receiving documents before payments are processed.

CREDIT CARDS

Review of written policies and procedures over grantee credit cards needs to be enhanced to adhere to LSC's *Fundamental Criteria.*

The grantee has one credit card, which has the Fiscal Manager's name. The OIG reviewed and tested 5 credit card statements, comprised of 64 transactions, totaling $9,733. OIG review and testing of the grantee's practices over credit cards revealed that controls need strengthening.

Written Policy

There are no detailed credit card policies and procedures in the grantee's Policies. The policies only describe how credit card statements are reviewed and processed. In addition, the grantee does not have any documentation for issuance of the VISA credit card showing the acknowledgement of receipt and responsibilities of the cardholder.

The LSC Accounting Guide states that financial controls shall be established to safeguard program resources. The Fiscal Manager stated that policies were created a while ago and the grantee may have overlooked establishing policies on issuance and deactivation of credit cards and their documentation.

Without adequate controls and definitions of responsibilities, transactions may be initiated that violate management intentions or legal or grant restrictions, and resources may be used for unauthorized purposes.

Inadequate Support and Approvals

The OIG's testing of internal controls over credit cards determined the following:

- Four transactions totaling $175 did not have a supporting receipt or invoice.
- Forty-two transactions totaling $6,636 had no documented pre-approvals. These included eight hotel expense transactions totaling $2,676 with no documented reason for the expense.

The LSC Accounting Guide stipulates that receipts for goods and the accuracy of invoices should be verified and documented, and approval should be required at an appropriate level of management before a commitment of resources is made.

The Fiscal Manager stated the hotel expenses were related to trainings, conferences and meetings; however, since the trips were verbally approved, no documentation stating the purpose of the incurred expense was maintained. Lack of adequate documentation and approval may lead to unauthorized disbursements.

Recommendations: The Executive Director should ensure that:

Recommendation 5: the credit card written policy is enhanced to include:

- the issuance and deactivation of credit cards;
- documenting the issuance of the credit card to staff members, showing the receipt, acknowledgement of responsibilities and signature of the cardholder; and
- instructions on documenting required approvals and procedures involving the use of credit cards.

Recommendation 6: all supporting documentation such as receipts and invoices that record the purpose of the expense is retained.

DERIVATIVE INCOME

SPLAS receives derivative income in the form of interest income. The grantee did not have any attorneys' fees under the LSC grant[1] or rental income for the audit period reviewed. The grantee's interest income is based on grant funds and is allocated based on percentage of funds making up the account balance. Written policies for derivative income were not included in the grantee's Policies.

Lack of Written Policies

SPLAS has no written policies relating to the treatment of attorneys' fees and interest income. In addition, the grantee applied an interest income allocation formula that was based on average daily balances. Based on the grantee's explanation, the allocation treatment is per LSC guidelines. The income is allocated in the same proportion as the funds in the account; however, the formula was not documented.

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

In addition, 45 CFR § 1609.6 stipulates that each grantee shall adopt written policies and procedures to guide staff in complying with this part and maintain records to document the grantee's compliance in the recording of attorneys' fees.

The Fiscal Manager stated that documenting policies for treatment of attorneys' fees had not been considered since they did not receive any attorneys' fees. However, the Fiscal Manager had just attended LSC's mandatory webinar on derivative income and stated she would recommend to the Executive Director and the Board to consider developing such policies.

The Fiscal Manager also did not realize that policies for interest income are needed since the amounts were very minimal, but was in agreement with the OIG that the Accounting Guide details that each grantee must develop a written accounting manual describing the specific procedures to be followed by the grantee in accordance with the *Fundamental Criteria.* She also stated that the formula was created by a Pennsylvania Legal Aid Network (PLAN) representative and all she has to do is plug in income and expenditure amounts and the formula calculates the interest income based on the average daily balance.

Failure to have written policies and procedures may result in incorrect allocation of derivative income, including related attorneys' fees and interest income. Although the interest income amount was minimal, the OIG was unable to recalculate and verify the monthly/quarterly interest allocation since the formula was not documented so that it could be replicated.

[1] SPLAS stated the only attorneys' fees collected is by the Fair Housing Law Center, which is funded and administered by the U.S. Department of Housing and Urban Development and that they are only to be used to support further Fair Housing services. The OIG did not further review these attorneys' fees since they are not derived from an LSC grant.

Recommendations: The Executive Director should:

Recommendation 7: develop a written derivative income policy that covers all types of derivative income received by the grantee and a written attorneys' fees policy that mirror the requirements contained in 45 CFR Part 1609.

Recommendation 8: ensure that the interest income allocation formula is adequately documented in writing for the auditors and others to follow and test.

SEGREGATION OF DUTIES

The grantee's Fiscal Manager is the only user of the accounting system and has assignments within disbursement functions that do not reflect proper segregation of duties. She is the one responsible for invoice posting, check processing and bank reconciliations. Although the vendor list had not been frequently purged or updated, the Fiscal Manager is the one responsible for maintaining the master vendor list and can add, edit and delete vendors.

The Accounting Guide identifies segregation of duties as a significant component of an adequate internal control structure. Duties must be segregated so that no individual can initiate, execute, and record a transaction without a second individual being involved in the process.

The Fiscal Manager stated that since she is the only person in the accounting role, only she has the capability to do all the work. She also stated that the Executive Director reviews payments to vendors before she enters them into the system. The Executive Director also receives the unopened bank statements and reviews them to ensure all payments are approved.

Lack of segregation of accounting duties provides opportunity for fraud to occur and go undetected. Having persons with dual responsibilities like records maintenance and check disbursals leads to increased chances of fraudulent activities that may go undetected. Within the disbursements function, this could include setting up fictitious vendors and/or address changes resulting in payments sent to incorrect locations.

Recommendations: The Executive Director should ensure that:

Recommendation 9: duties related to making payments and performing reconciliations are adequately segregated or reviewed periodically by another person where segregation is not feasible.

Recommendation 10: duties involving maintenance of the master vendor list and vendor payment processing are adequately segregated and the vendor list is regularly purged and maintained to reflect current information of active vendors.

FIXED ASSETS

The OIG reviewed the controls over fixed assets and determined the grantee has written policies and procedures mostly comparable with LSC's *Fundamental Criteria*; however, the policies need to be enhanced in certain areas. In addition, the grantee needs to improve its practice of performing an adequate inventory and updating fixed asset records.

Written Policies

The grantee's Policies do not include the following in its fixed assets policy:

- list of elements required by the *Fundamental Criteria* for property records;
- policies and procedures for tracking sensitive electronics that are not capitalized;
- procedures on disposal of obsolete fixed assets; and
- dollar value for capitalization of fixed assets.

The LSC Accounting Guide, Section 3-4 requires each grantee to develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria.* Per discussion with the Fiscal Manager, the grantee is working on updating its policies and procedures and she will work on including this information in the updates now that she is aware of the requirement.

Without detailed, written policies and procedures, there could be a lack of transparency and consistency in the application of properly accounting for fixed assets, especially in cases of staff turnover. Furthermore, the grantee may incur losses due to misplaced or improper disposal of property.

Inadequate Inventory

Although the grantee performs an inventory count biennially, it did not demonstrate that the inventory was reconciled to its accounting/property records as required by the LSC Accounting Guide. The LSC Accounting Guide, Section 2-2.4, states that a physical inventory should be taken and the results reconciled with property records at least once every two years. Any differences between quantities determined by physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference, and the accounting records should be reconciled to the results of the physical inventory with an appropriate note included in the financial statements.

The Fiscal Manager stated that a physical inventory was performed in the fall of 2014, and the record provided to the OIG was the original listing of office inventories as the prior physical inventory could not be found. The list contained the type and number of items present in each location at the time. We also reviewed controls over sensitive non-capitalized assets. The grantee had two laptops and one iPad and had adequate existing controls over these items.

Proper accounting of fixed and physical assets and adequate maintenance of property records will safeguard assets, provide accountability for assets purchased and support reconciliations such that asset balances are accurate. Without reconciling the physical inventory to the accounting records, a loss of fixed assets may not be detected.

Fixed Asset Records Not Updated

SPLAS property records were not fully updated as the total dollar value of individual items capitalized did not equal the property control account balance in the general ledger. SPLAS property records also did not contain the following required elements:

- check number;
- estimated life; and
- depreciation method.

While the property records are able to track the funding source for purchases, per review of the records, SPLAS does not break down the funding for much of the property included in the records. The LSC Accounting Guide stipulates that property records include the check number, estimated life and depreciation method. In addition, it states that the total dollar value of individual items capitalized shall equal the property control account balance in the general ledger and support related amounts disclosed in the financial statements.

Per the Fiscal Manager, the property records were created by her predecessor. She is unsure if the process was fully completed prior to her arrival, however she does not update the summary tab within the property records. She adds the purchases into separate tabs within the workbook. Failure to maintain adequate property records may result in the inability to fully account for fixed asset purchases and to support depreciation amounts and property asset balances.

Recommendations: The Executive Director should:

Recommendation 11: enhance existing fixed assets written policies and procedures to include accounting for sensitive electronics, guidance on disposal of fixed assets and ensure that they fully capture all the property record listing elements required by LSC's *Fundamental Criteria*; specifically, the check number/method of payment, estimated life and source of funds used to acquire the property.

Recommendation 12: ensure that a physical inventory count is conducted every two years and reconciled to the accounting property records in accordance with LSC guidelines.

Recommendation 13:

(a) ensure a master property record is maintained that includes all the required property criteria; and

(b) ensure that the total dollar value of individual items capitalized and included on the property record equals the fixed assets account balances included within the general ledger.

BUILDING OWNERSHIP

SPLAS was temporarily transferred the title of the building they occupy at 10 West Cherry Avenue, Washington, PA 15301 in Washington County. This transfer is only to hold title and no mortgage payments are to be made on the building until a separate entity is formed to own and govern the building. That entity is a non-profit called the Washington Equal Justice Center (WEJC). The Executive Director stated that as soon as the new entity is able to accept title, the title will be transferred to the WEJC, and SPLAS will continue to rent from that entity. According to the Executive Director, future rental payments will be allocated to LSC under the same method as the previous rental agreement.

The Executive Director also stated that he is on the Board of Directors of this new non-profit but the other Board members were independently selected and have a majority vote. The concept is that after WEJC pays off the building, WEJC will decide if they want to sell or give the building to the grantee. The decision will be entirely up to the WEJC Board. According to the Executive Director, with this arrangement, the grantee does not have control over the building.

Per discussion with the Executive Director, no rental payments have been made by SPLAS since January 2016 because the title has not been fully transferred. Apparently, there is still a lien on the building related to one of the owners that is taking time to resolve. Any rents from tenants in the same building have been placed in escrow and will be given to WEJC.

This arrangement seems to be unusual since a portion of the rent and expenses are paid with LSC funds, but LSC does not appear to have any reversionary interest in the property. The OIG will therefore refer it to LSC Management for further review.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management agreed with all findings and recommendations contained in the report. Grantee management stated the following:

- They will draft a contracting policy to include contract types, dollar thresholds, vendor selection process and contract process documentation;
- They have already implemented a centralized, electronic filing system for each contract and all contracts have been uploaded to those files;
- They will enhance their policies to include controls over the use of the EZ Pass;
- The current fiscal policies will be updated to ensure that pre-approvals are correctly obtained and documented electronically by the Fiscal Manager;
- They will develop policies related to purchase orders and their review, comparison and documentation by the Fiscal Manager;
- The credit card policy will be enhanced to include all of the OIG's recommendations, including the requirement that the Fiscal Manager retains all supporting documentation;
- They have already developed derivative income and interest income policies, which are to be presented to their Board of Directors;
- They would prefer a process that does not go beyond the current management team as it relates to segregation of duties. However, they will update and conform their policy to the OIG's recommendation in the final report; and,
- They are in the process of updating fiscal policies related to fixed assets consistent with the OIG's recommendations. Their policies will require a physical inventory at least every other year, and they will conduct one in fiscal year 2016-17.

The Grantee's comments are included in Appendix II.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers the proposed actions to address all the recommendations as responsive. The proposed actions to revise and update the Financial Management Policies should correct the issues identified in the report. However, all thirteen recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation provided.

For Recommendations 9 and 10, related to segregation of duties, the grantee stated that with its current limited staff, they would prefer a process that did not go beyond the current management team. The LSC Accounting Guide stipulates that accounting duties should be segregated to ensure that no individual can initiate, execute, and record a transaction without a second independent individual involved in the process. In this case, the same staff is also responsible for vendor maintenance and adding invoices. While the grantee may have limited staff, management should establish a process to ensure duties related to payments are reviewed periodically by another person where segregation is not feasible.

APPENDIX I

SCOPE AND METHODOLOGY

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

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

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

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

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. The sample consisted of 86 disbursements consisting of 171 transactions totaling $95,770.17. The sample represented approximately 12.8 percent of the $748,064 disbursed for expenses other than payroll during the period January 1, 2015 to June 30, 2016. To assess the appropriateness of expenditures, we reviewed invoices and vendor lists, then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations and LSC policy guidance.

Included in the disbursement sample were five credit card statements, comprising 64 transactions, totaling $9,733.27. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

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

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

Controls over derivative income were reviewed by examining current grantee practices in comparison with LSC regulations and policies outlined in the LSC Accounting Guide.

The on-site fieldwork was conducted from July 27, 2016 through August 4, 2016. Our work was conducted at the grantee's central administrative office in Washington, PA and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2015 through June 30, 2016.

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

Southwestern Pennsylvania
Legal Services, Inc.

Central Office
WASHINGTON COUNTY
10 West Cherry Avenue
Washington, PA 15301
Tel: 724-225-6170
Fax: 724-250-1078

FAYETTE COUNTY
45 East Main Street
Suite 200
Uniontown, PA 15401
Tel: 724-439-3591
Fax: 724-439-6491

GREENE COUNTY
63 South Washington Street
Waynesburg, PA 15370
Tel: 724-627-3127
Fax: 724-852-4189

SOMERSET COUNTY
218 Kimberly Avenue
Suite 101
Somerset, PA 15501
Tel: 814-443-4615
Fax: 814-444-0331

December 8, 2016

John M. Seeba
Assistant Inspector General for Audit
Office of Inspector General
Legal Services Corporation
3333 K Street, NW 3rd Floor
Washington, DC 20007-3558

Re: Comments on November 3, 2016 draft audit report

Dear Mr. Seeba:

Thank you for the opportunity to comment on your draft report. We also appreciate your office's intensive work related to our fiscal policies and several recommendations, and we intend to follow any recommendations that you make.

Preliminarily, I note that there is a minor error in your background on page 1. PLAN is referred to as the Philadelphia Legal Aid Network and should be changed to the Pennsylvania Legal Aid Network. Also, generally, I note that since I started in May 2015, we have been engaged in an exhaustive review of our personnel and internal polices and Board's by-laws, while restructuring the Board and its process. Fiscal policies have been in need of an exhaustive review as well, but that has not yet occurred due to the nature and volume of management responsibilities during this transition. Therefore, we appreciate your audit and recognize it as an opportunity to now fully address our fiscal policies.

Hotline: 888-855-3873

www.splas.org
email: legalservices@splas.org

I also note that our Deputy Director and Fiscal Manager have taken great care with respect to our fiscal practices and have made certain limited policy improvements before, during and after this transition. That said, we recognize the importance of sound and comprehensive policies for internal controls.

With respect to your audit items and recommendations, I will address each:

Contracting:

I am drafting a Contracting fiscal policy for review by the Board of Directors' Finance Committee at a meeting before the Board's next regular meeting of February 6, 2017. I will recommend that the committee proposes a policy for adoption at that meeting. The policy will include:

1. Contract types;
2. Dollar thresholds;
3. Requirement to set contracts' effective and expiration dates;
4. Processes of administering and reviewing contracts;
5. Processes of competitive bidding (or sole source justification) and selection of vendors;
6. Requirements for documenting these processes.

The program has already implemented centralized, electronic filing for each contract that it has entered into, available to staff. All contracts have been uploaded to those files. The Fiscal Manager has electronic filing for the documents related to bids, also located on the program's central server.

Disbursements:

I will determine whether a policy related to EZ Pass use should be included in our recently-amended Travel and Expense personnel policy, or if it should be included as a fiscal policy. After that decision, I will review it at a meeting with the appropriate Board Committee (Finance or Personnel) for its recommendation to the Board of Directors at the February 6, 2017 meeting.

The current fiscal policies will be updated to ensure that pre-approvals are correctly obtained and documented electronically by the Fiscal Manager in the same manner as noted above. Said updates will be proposed to the Finance Committee and then the Board at its February 6, 2017 meeting.

Similarly, a policy related to purchase orders and their review, comparison and documentation by the Fiscal Manager will be proposed to the Finance Committee and then the Board at its February 6, 2017 meeting.

Credit Cards:

The credit card policy will be enhanced in the same manner and time frame as described above and will include all of the audit recommendations, including the requirement that the Fiscal Manager retains all supporting documentation.

I note that the Fiscal Manager and I have been careful in practice to ensure that all credit card transactions are individually reviewed. I carefully review each statement to make sure that all purchases are consistent with the program's mission and practices, and I review any questions about individual transactions with the Fiscal Manager.

Derivative Income:

After the OIG audit visit in August, we developed derivative income and interest income policies. They are attached and will be presented to the Board of Directors in the same manner as described above.

Segregation of Duties:

In light of our limited staff and dedication to providing as much case work as possible with economic administration costs, we would prefer a process that does not go beyond the current management team of the Executive Director, Fiscal Manager and/or (if needed) the Deputy Director. Upon receiving your final report, we will update and conform our policy related to segregating duties to your final recommendations.

Fixed Assets:

We are in the process of updating our fiscal policies related to fixed assets, in the manner described above and consistent with your recommendations. Our policies will require a physical inventory at least every other year, and we will conduct one in fiscal year 2016-17. We will include as policy Fiscal Manager responsibility to implement the items recommended in #13.

Building Ownership:

The Washington Equal Justice Center's (WEJC) Board of Directors has now met on three occasions. The lien on Karen Carroll's one-half interest to the property was lifted, title was insured, and she transferred her interest in the property to the WEJC. The one-half interest transferred from Joseph Moschetta to SPLS due to WEJC not having yet incorporated (until May 2016) will be transferred in the coming weeks. Further delay occurred to this title transfer so that I could inquire with Washington County's Recorder of Deeds and Tax Claim Bureau Solicitor whether the transfer taxes could be avoided. He answered in the negative, so the WEJC will be responsible for those fees.

Leases for the tenants, including SPLS, are being drafted *gratis* by Regional Housing Legal Services. SPLS is prepared to take that lease before its Board of Directors, but it will need to contemporaneously resolve any costs forwarded with the WEJC. SPLS' rental obligation is expected to be the same or less than its previous rental obligation to Mr. Moschetta and Mrs. Carroll.

The WEJC is expecting to soon close on a 15 year mortgage with PNC Bank. Its Board of Directors directed two directors to attempt to negotiate a pre-payment penalty provision. PNC's loan officer has given a final response, so the matter must return to its Board for approval of the mortgage terms, and a closing date will then be scheduled.

Regional Housing Legal Services has control over a majority of WEJC Board appointees, and the WEJC will independently govern and manage the building and decide upon uses, improvements and future title decisions.

Please contact me if further responses will assist you in completing your report and recommendations. Thank you.

Very truly yours,

/s/ Brian V. Gorman
Brian V. Gorman
Executive Director
brian.gorman@splas.org

Pc: Megan Lacchini, Deputy Director for General Compliance
Grace Nyakoe, Audit Manager
Adam J. Belletti, Esq., President, SPLS Board of Directors
Amy Puglisi, SPLS Fiscal Manager