



**Office of Inspector General**  
**Legal Services Corporation**

August 30, 2021

Patience Milrod  
Executive Director  
Central California Legal Services  
2115 Kern Street  
Suite 1  
Fresno, CA 93721

Dear Ms. Milrod,

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit on Selected Internal Controls at Central California Legal Services (CCLS). Appendix IV of the final report includes CCLS' comments to the draft report in their entirety.

The OIG considers the proposed actions to the 21 recommendations as responsive; however, these recommendations will remain open until they are completely addressed and the OIG is provided with the list of items mentioned on pages 33-34, OIG Evaluation of Grantee Management Comments, of the final report.

The OIG is referring \$12,671 in questioned costs to LSC management for further review and action. The questioned costs consist of the following:

- LSC unallowable credit card expenditures totaling \$3,008. These expenditures included unallowable food and meal purchases and a membership fee to a private nonprofit organization.
- Purchases with LSC funds totaling \$7,761 that we determined were not reasonable or necessary for the purpose of the LSC grant or were not adequately and contemporaneously documented.
- Attorneys' fees totaling \$1,902 that were not properly allocated to the LSC grant.

Please send us your response to close out the 21 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 March 1, 2022.

Sincerely,

Jeffrey E. Schanz

Enclosure

cc: Legal Services Corporation  
Ron Flagg, President

Lynn Jennings  
Vice President for Grants Management

Central California Legal Services Board of Directors:

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# **LEGAL SERVICES CORPORATION**



Office of  
Inspector General

**Central California Legal Services  
RNO 805060**

Final Report on Selected Internal Controls

Report No. AU 21-04  
August 2021

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

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## **INTRODUCTION**

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Central California Legal Services related to specific grantee operations and oversight. Audit work was conducted remotely due to safety concerns related to the coronavirus disease 2019 (COVID-19) pandemic.

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

The process put in place, managed, and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:

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

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

## **BACKGROUND**

Central California Legal Services (CCLS or "grantee") is a non-profit organization providing free civil legal aid to low-income individuals, families, organizations, and communities since 1966. CCLS' purpose is to fight social injustice, provide education and representation to the disadvantaged, and to maintain access to the legal system. CCLS has three offices and serves six counties in central California.

According to CCLS' audited financial statements for the fiscal year ending 2019, the grantee received a total of \$7,042,693 in contractual revenue and grants, 45 percent or \$3,204,197 of which was provided by LSC.

## **OBJECTIVE**

The overall objective was to assess the adequacy of select internal controls at CCLS and determine whether costs were supported and allowed under the LSC Act of 1974 as amended, and the Accounting Guide for LSC Recipients, as well as other applicable laws and regulations.

## **AUDIT FINDINGS**

To accomplish the audit objective, the Office of Inspector General (OIG) evaluated select internal controls in specific financial and operational areas to ensure that costs were adequately supported and allowed under the LSC Act, along with other LSC regulations and guidelines. In particular, the OIG reviewed and tested internal controls related to credit cards, disbursements, derivative income, general ledger and financial controls, contracting, fixed assets, employee benefits, payroll, client trust funds, cost allocation, and management reporting and budgeting within the audit period May 1, 2018, to May 31, 2020.

Additionally, the OIG noted exceptions in the recording and allocating of attorneys' fees for calendar year 2018. To determine the extent of the exceptions and their impact, we expanded the scope of our attorneys' fees testwork to include January 1, 2018, through May 31, 2020.

Internal controls were adequately designed and properly implemented in cost allocation and management reporting and budgeting, as they relate to specific grantee operations and oversight. However, CCLS needs to implement some improvements to strengthen its practices and formalize, in writing, internal controls over credit cards, disbursements, derivative income, general ledger and financial controls, contracting, fixed assets, employee benefits, payroll, and client trust funds as detailed below.

## CREDIT CARDS

The OIG reviewed the grantee's written policies and procedures as well as practices in place to determine whether they are comparable to LSC's *Fundamental Criteria* and adhere to LSC regulations and guidelines.

The OIG judgmentally selected a sample of 46 credit card transactions, totaling \$39,362 from the general ledger and five months of credit card statements throughout the audit period. The sample represents approximately eight percent of the \$465,820 total credit card transactions made from May 1, 2018, to May 31, 2020. The credit card transactions reviewed were high value transactions, potentially LSC unallowable transactions, office supplies, IT equipment and software, and training.

As a result of our review, the OIG found LSC unallowable transactions and missing supporting documentation. Additionally, we found that CCLS' credit card policies and procedures needed strengthening in order to be aligned with LSC's *Fundamental Criteria* and LSC Regulations and guidelines.

### LSC Unallowable Transactions

In performing testwork of the 46 credit card transactions sampled, the OIG identified 21 LSC unallowable transactions totaling \$3,157, of which \$3,008 was charged to LSC. (See Table 1.) These transactions included multiple food purchases for staff meetings as well as a membership fee to a private nonprofit organization.

**TABLE 1 – LSC Unallowable Credit Card Transactions**

<b>Transaction Classification</b>	<b>Number of Transactions</b>	<b>Total Disbursement Amount</b>	<b>Total Amount Charged to LSC</b>
Unallowable Food and Meal Purchases	20	\$2,922	\$2,773
Membership Fees	1	\$235	\$235
<b>Total</b>	<b>21</b>	<b>\$3,157</b>	<b>\$3,008</b>

Per the OIG's observations, CCLS did not identify these expenses as unallowable costs. Grantee management stated that they are reviewing their credit card policies and practices over LSC unallowable expenses to ensure they are consistent and in alignment with guidelines.

LSC regulation 45 CFR § 1630.5(a) states:

Expenditures are allowable under an LSC grant or contract only if the recipient can demonstrate that the cost was (1) actually incurred in the performance of the grant or contract and the recipient was liable for payment, (2) reasonable and necessary for the performance of the grant or contract as approved by LSC.



LSC regulation 45 CFR §1630.7(a) states that LSC funds may not be used to pay membership fees or dues to any private or nonprofit organization, whether on behalf of the recipient or an individual.

The OIG is questioning the unallowable costs that were paid with LSC funds and we will refer \$3,008 to LSC management for review and action.

#### Lack of Supporting Documentation

The OIG found 28 of the 46 sampled credit card transactions lacked adequate supporting documentation as follows:

- Three transactions totaling \$775, of which \$440 was charged to LSC, lacked receipts, check requests, and other documented support. Two of the transactions were for Amazon purchases and the third was for a training webinar.
- Twenty-five transactions totaling \$25,236, of which \$19,753 was charged to LSC, did not include a requisite check request form. These transactions included IT purchases, food, case fees, and job advertisements.

Grantee management stated they were unable to locate receipts or other support for the transactions that lacked supporting documentation. Grantee management also stated that check request forms are not consistently used for credit card transactions. They are reviewing their credit card policies and practices to ensure consistency.

The LSC Accounting Guide § 3-5.4 states that the receipt of goods and the accuracy of invoices should be verified and documented.

The CCLS Accounting and Fiscal Policies Manual states that “when credit card use is deemed necessary, a check request form must be filled out completely.” Additionally, the manual states that the fiscal assistant should prepare a check request form for all invoices received and include all appropriate supporting documentation.

Without adequate internal verification of supporting documentation in the form of receipts and invoices, cash may be disbursed for goods and services not received, in advance of receipt, or in the wrong amount. The lack of adequate supporting documentation may lead to credit card expenses not being adequately recorded and reported.

#### Lack of Board Oversight of Executive Director Expenses

The OIG found that the Executive Director’s credit card expenses were not being reviewed and approved by the Treasurer of the CCLS Board of Directors or Board Designee, as required by CCLS’ written policies.

The Executive Director's credit card expenses were not being reviewed and approved by the Board Treasurer due to turnover in that position. The Contracted Director of Fiscal Operations and fiscal staff performed a review of the Executive Director's credit card expenses each month and a summary of the charges were provided to the Board Treasurer, but no approval documents were returned.

The CCLS Accounting and Fiscal Policies Manual states that the expenses and reimbursements of the Executive Director must be reviewed and approved by the Treasurer of the Board of Directors or Board Designee at least quarterly and should be evidenced by the Treasurer's documented signature.

The lack of board oversight of the Executive Director's credit card expenses may result in purchases made without the board's knowledge or at unacceptable prices or terms.

#### Lack of Credit Card User Agreement Forms

CCLS did not utilize a Credit Card User Agreement Form for employees who were issued and authorized to use credit cards. A Credit Card User Agreement Form documents that an authorized credit card user has agreed to abide by the grantee's policies and procedures over the use of credit cards.

According to grantee management, CCLS verbally communicates the allowable credit card uses to all credit card holders. The fiscal department monitors usage on a weekly basis. However, the grantee agrees that their processes should be in writing.

The LSC Accounting Guide, Appendix VII, provides guidelines to grantees to develop a form containing relevant credit card policies for employees who are issued and authorized to use credit cards to review and sign.

Without financial authority being clearly defined and evidenced on user agreement forms, CCLS employees may use the grantee's credit cards incorrectly or for unauthorized expenses.

#### Inadequate Policies & Procedures Over Credit Cards

Through review of the grantee's credit card policies and procedures the OIG determined that some elements required by the LSC Accounting Guide were missing. CCLS' accounting manual did not include written policies or procedures regarding the issuance and deactivation of credit cards. They also did not include prohibitions on automated teller machine (ATM) withdrawals, cash advances, and personal use of the cards. Additionally, the written credit card policies did not include policies concerning the handling of impermissible charges, the incurrence of late fees and finance charges, and the cardholder reconciliation process.

CCLS established processes for the approval, request, creation, and deactivation of authorized credit cards. However, these practices are not included in their written policies

and are instead communicated verbally to applicable staff. Grantee management stated they are updating their credit card use policies to include these elements.

The LSC Accounting Guide, Appendix VII, provides safeguards that serve as guidelines to strengthen and improve internal controls over the use of credit cards.

Inadequate internal controls due to a lack of written policies and procedures over credit cards increase the risk of unauthorized expenditures.

The Executive Director should:

**Recommendation 1**: ensure that LSC unallowable credit card expenses are not charged to LSC.

**Recommendation 2**: ensure that adequate supporting documentation is maintained and verified for all credit card transactions before payment is made.

**Recommendation 3**: ensure that the CCLS Board of Directors appoints a board member to review and approve the Executive Director's credit card expenses and a substitute member who can review in the appointed member's absence.

**Recommendation 4**: develop a credit card user agreement form for authorized credit card holders and users to read, acknowledge, and sign. The agreement may include, but not be limited to, repayment terms and conditions for personal use or misuse of the card. The signed agreement should be retained in a central file.

**Recommendation 5**: update the credit card policies and procedures in the CCLS Accounting and Fiscal Policies Manual to accurately reflect current practices. The manual should also be updated to include detailed policies and procedures for the following areas:

- Use of check request forms;
- Cardholder reconciliation process;
- Activation and deactivation of credit cards; and
- The prohibition of ATM withdrawals, cash advances, personal use, and other impermissible credit card charges.

## DISBURSEMENTS

The OIG reviewed the grantee's written policies and procedures as well as practices in place to determine whether they are comparable to LSC's *Fundamental Criteria* and adhere to LSC regulations and guidelines. The OIG judgmentally selected a sample of 85 disbursement transactions, totaling \$554,834. The sample represents approximately five percent of the \$11,741,903 disbursed for expenses other than credit cards and payroll, from May 1, 2018, to May 31, 2020.

As a result, the OIG found that the grantee's policies and procedures were mostly comparable to LSC's *Fundamental Criteria* as well as LSC regulations and guidelines. However, the OIG found LSC unallowable costs and inadequate documentation of prior approval.

### LSC Unallowable Transactions

From our sample of 85 disbursement transactions, the OIG found seven disbursements totaling \$14,000, of which \$7,717 was charged to LSC, for purchases that either were not reasonable or necessary for the purpose of LSC grant funding or were not adequately and contemporaneously documented. (See Table 2.) For the purposes of reporting LSC unallowable transactions, we are also including two petty cash disbursements totaling \$44 that we identified in our General Ledger and Financial Controls sample and testwork.

**TABLE 2: LSC Unallowable Disbursements**

<b>Unallowable Transaction Classification</b>	<b>Number of Transactions</b>	<b>Total Disbursement Amount</b>	<b>Total Amount Charged to LSC</b>
Hotel and Related Expenses for All Staff Meeting & Training Event	1	\$6,083	\$3,042
Meals for Staff Meetings & Staff Appreciation Events	3	\$4,079	\$2,461
Sunglasses & Mugs	1	\$2,936	\$1,706
Membership Dues to Nonprofit Organization	1	\$689	\$482
Unallowable Meal Purchases from Petty Cash	3	\$257	\$70
<b>Total</b>	<b>9</b>	<b>\$14,044</b>	<b>\$7,761</b>

The payment to a hotel for an all-staff meeting and training was considered unallowable because there was no meeting agenda provided to the OIG and we could not determine the purpose of the training. There was no documentation of a meeting agenda for the disbursements for meals for the all-staff meetings and staff appreciation events.

Per the OIG's observations, CCLS did not identify these disbursements as unallowable costs. Grantee management stated that the LSC unallowable transactions were allocated to multiple funding sources.

LSC regulation 45 CFR §1630.7(a) states that LSC funds may not be used to pay membership fees or dues to any private or nonprofit organization, whether on behalf of the recipient or an individual.

LSC regulation 45 CFR § 1630.5(a) states:

Expenditures are allowable under an LSC grant or contract only if the recipient can demonstrate that the cost was (1) actually incurred in the performance of the grant or contract and the recipient was liable for payment, (2) reasonable and necessary for the performance of the grant or contract as approved by LSC.

The regulation further states that costs are only considered allowable if they are adequately and contemporaneously documented in records accessible to LSC management, the Office of Inspector General and other relevant parties.

LSC Program Letter 18-3 states that in determining the reasonableness of a given cost, consideration must be given to, among other factors:

[W]hether the cost is of a type generally recognized as ordinary and necessary for the operation of the recipient or the performance of the grant. Also, 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.

The OIG is questioning the unallowable costs that were paid with LSC funds. As such, we will refer \$7,761 to LSC management for review and action.

#### Inadequate Documentation of Prior Approval

The OIG found that CCLS was not consistently following their own policies and procedures. As a result, there was no documentation of prior approvals or required check requests for six disbursement transactions totaling \$29,682. The amount charged to LSC totaled \$3,578 (See Table 3).

**TABLE 3 – Transactions with No Documentation of Prior Approvals**

Transaction Purpose	Number of Transactions	Total Disbursement Amount	Total Amount Charged to LSC <sup>1</sup>
Needs Assessment for a Subgrant	1	\$21,162	\$0
Office Equipment	2	\$4,364	\$1,846
Sunglasses and Mugs	1	\$2,936	\$1,706
Employee Reimbursement Related to Travel	1	\$1,007	\$0
Petty Cash Replenishment	1	\$213	\$26
<b>Total</b>	<b>6</b>	<b>\$29,682</b>	<b>\$3,578</b>

Grantee management stated in some instances the approvals were provided via email rather than through check requests, and in other instances approvals were not documented due to oversight. Grantee management also stated that they will review their practices in documenting prior approvals.

The CCLS Accounting and Fiscal Policies Manual requires submission and approval of check request forms and states that all invoices must be approved by the manager of the department for which the expense was incurred. All supporting documentation should be attached before payment is made. In addition, the LSC Accounting Guide § 3-5.4 states that approval should be required at an appropriate level of management before a commitment of resources is made.

Failure to document and follow the purchase approval process may result in purchases made without the knowledge of appropriate management. Additionally, payments may be made for goods and services not received, in advance of receipt, or in the wrong amount.

The Executive Director should:

**Recommendation 6:** ensure that when processing disbursements, LSC unallowable costs are not charged to LSC.

**Recommendation 7:** ensure that prior approvals, including check requests, are obtained, documented, and maintained in file before payment is made per the CCLS Accounting and Fiscal Policies Manual.

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<sup>1</sup> The \$1,706 of LSC funds charged for sunglasses and mugs as well as the \$26 of LSC funds charged for petty cash replenishment are also included in TABLE 3: LSC Unallowable Disbursements and are considered questioned costs.

## DERIVATIVE INCOME

The OIG reviewed CCLS' derivative income processes to determine whether adequate internal controls exist over derivative income and whether derivative income is properly recorded and allocated according to LSC regulations and guidelines.

CCLS records three types of derivative income: attorneys' fees, interest income, and other income. During the audit period, the grantee recorded \$81,113 in attorneys' fees, \$49,405 in interest income, and \$79,420 in other income which consisted mostly of rebates, parking reimbursements, and non-LSC COVID related funds (See Table 4).

**TABLE 4: Sources of Derivative Income at CCLS**

Derivative Income Type	Amount Recorded	Time Period of OIG Review
Attorneys' Fees	\$81,113	Jan 1, 2018, to May 31, 2020
Interest Income	\$49,405	May 1, 2018, to May 31, 2020
Other Income	\$79,420	May 1, 2018, to May 31, 2020

The OIG found that the 2018 attorneys' fees in the initial audit period under review were not properly allocated. Therefore, we expanded the audit scope to include testwork and recalculation of all 2018 attorneys' fees to better understand the extent of the issue and to reconcile amounts to the grantee's 2018 financial statements.

The OIG conducted interviews and walkthroughs and reviewed the grantee's 2018 and 2019 audited financial statements as well as their general ledger transactions to understand and test internal controls related to interest and other income. In addition to those procedures, we performed testwork and recalculated attorneys' fees based on general ledger entries, funding codes, and timesheets from the grantee's case management system.

The OIG found the internal controls over interest income and other income to be adequate. While the grantee currently has controls to ensure that attorneys' fees are recorded and allocated in compliance with LSC regulations and guidelines, we found that the grantee's attorneys' fees recorded in 2018 did not comply with LSC regulations. We also found untimely filings for payment claims to the courts which resulted in a significant reduction in attorneys' fees received. Also, while the grantee currently has adequate policies and procedures in place for derivative income, these policies and procedures are not part of the Board-approved accounting manual.

### Misallocated Attorneys' Fees

From January 1, 2018, to May 31, 2020, the grantee reported \$81,113 in attorneys' fees, of which \$58,311 was allocated to LSC. The 2019 and 2020 attorneys' fees received were allocated using a reasonable and equitable methodology. This methodology

allocates attorneys' fees to funding sources in proportion to the time worked on each case that results in attorneys' fee awards. However, the OIG found the grantee did not allocate its 2018 attorneys' fees to the relevant funding sources and were instead recording the attorneys' fees as unrestricted income.

To determine the amount of attorneys' fees that should have been awarded to LSC, the OIG recalculated amounts using the grantee's allocation methodology developed in 2019. Six of 14 attorneys' fees awards recorded in 2018 were associated with cases in which time was charged to the LSC grant, however the fees were not allocated to LSC. Based on OIG recalculations, an additional \$1,902 should have been recorded as LSC derivative income.

The OIG is questioning the misclassified amount of \$1,902, pursuant to 45 CFR § 1609.4 and 45 CFR § 1630.17 and will refer this amount to LSC management for follow up.

CCLS management stated that they began allocating attorneys' fees to the individual grants in early 2019 when they were informed to do so by a non-LSC funding source. They then sought to make an attorneys' fee allocation system that complied with all funding source requirements and to ensure attorneys' fees are allocated to each funding source in accordance with the time billed to the funding sources.

LSC regulation 45 CFR § 1609.4 (b) states:

Attorneys' fees received by a recipient or an employee of a recipient for representation supported in whole or in part with funds provided by LSC shall be allocated to the fund in which the recipient's LSC grant is recorded in the same proportion that the amount of LSC funds expended bears to the total amount expended by the recipient to support the representation.

Additionally, 45 CFR § 1630.17 (a) states:

Derivative income resulting from an activity supported in whole or in part with LSC funds shall be allocated to the fund in which the recipient's LSC grant is recorded in the same proportion that the amount of LSC funds expended bears to the total amount expended by the recipient to support the activity.

Proper classification of derivative income allows LSC to be accorded its apportioned share of income, which in turn can be used to provide legal services in accordance with LSC requirements.

#### Untimely Filing of Attorneys' Fees

In October 2018, CCLS filed claims for awards of nine attorneys' fees dating from 2006 to 2018 and totaling \$49,200, to the California Superior Court, County of Fresno. The Court found these claims were not filed timely, according to their established policies. Therefore, factoring in reductions for the untimely submissions, the Court issued



a letter reducing the amount paid from \$49,200 to \$13,193, a difference of \$36,007. According to our calculations, if the claims had been filed timely and the fees allocated according to the grantee's 2019 attorneys' fees allocation methodology, LSC would have received \$1,392, but due to the late filing this amount would have been reduced to \$303. None of these attorneys' fees were allocated to LSC.

According to grantee management, "The CCLS attorney responsible for billing the courts for Minors Counsel did not submit the required invoices from prior years. The Legal Director and Director of Fiscal Services discovered the issue in 2018 and contacted the courts to request approval for late filing. CCLS has since implemented controls to the billing process to guard against this occurring again."

LSC regulation 45 CFR § 1630.17(b) states that derivative income allocated to LSC is subject to criteria including applicable regulations, guidelines, instructions, and other applicable law. The Superior Court of California, County of Fresno Claims Processing Policy for Court-Appointed Vendor states that requests for payment must be submitted on a timely basis.

The untimely filing of attorneys' fees claims may result in late filing penalties that reduce the amount of funds received by the grantee, which in turn can be used to provide legal services in accordance with LSC requirements.

#### Attorneys' Fees Policies Not Included in the Accounting Manual

While the grantee was able to provide the OIG policies and procedures over the allocation and recordation of fee-generating cases that were compliant with 45 CFR § 1609, the policies were not included in the grantee's Board-approved accounting manual.

According to grantee management, the policies were not included due to an oversight. They stated that CCLS is in the process of revising and updating the Board-approved accounting manual.

The LSC Accounting Guide, § 3-4(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*."

The lack of attorneys' fees allocation policies in the Board-approved accounting manual may result in confusion over the policies in times of staff transition.

The Executive Director should:

**Recommendation 8:** ensure that attorneys' fees are consistently and equitably allocated to the LSC grant.

**Recommendation 9:** implement policies and procedures to ensure the timely filing of attorneys' fees claims.

**Recommendation 10:** update the Board-approved accounting manual to include the written policies related to attorneys' fees.

## CONTRACTING

To test internal controls over contracting, the OIG conducted interviews and selected a sample of eight contracts for services, including contracts for the oversight of fiscal operations, information technology, and janitorial services. During the audit period, vendors in the sample were paid a total of \$545,389.

The OIG reviewed CCLS' contracting policies, procedures, and practices in place to determine whether the grantee has adequate internal controls over the contracting process. CCLS' written policies and procedures over contracting are comparable to the LSC *Fundamental Criteria* and identify adequate procedures for various contract types. However, the grantee did not consistently follow its written policies and procedures or adhere to LSC regulations regarding adequately documenting each contract action, seeking LSC prior approval for contracts over \$25,000, and maintaining contract documentation in a central file. Also, the OIG found one long-standing contract that had not been rebid.

### Inadequate Documentation

The OIG found that of the eight sampled contracts, seven contracts lacked at least one element of contract documentation (See Table 5).

**TABLE 5: Exceptions in Sampled Contracts**

Sample #	Purpose	Total Amount Expended	Amount Allocated to LSC	Lack of Contract	Unclear Scope of Work	Perpetually Renews	No Bid or Sole Source Doc.	Long Standing / Not Rebid	Missing Signatures	Missing LSC Approval
1	Contracted Director of Fiscal Operations	\$176,909	\$71,388							X
2	IT Consultation	\$167,974	\$59,470		X	X	X			X
3	File Digitization and Management	\$3,898	\$1,299						X	
4	IT Consultants	\$101,533	\$63,616	X			X		X	
5	Janitorial	\$11,243	\$6,588	X						
6	Water (No Exceptions)	\$4,300	\$2,306							
7	Audit Services	\$69,845	\$57,504				X	X		
8	IT Services	\$9,688	\$7,094						X	

The OIG found that for a sampled janitorial service, no contract existed. CCLS paid \$11,243 to this vendor over the scope of the audit.

An IT Consultant contract did not have a clear scope of work. The signed contract contained many annotations made by the Executive Director that may be ambiguous to a third party. These included question marks, underlines, and strikethroughs. These annotations made it difficult to ascertain the precise contract terms. The same contract also did not have an end date and perpetually renewed. Grantee management claimed that there was a subsequent contract amendment which provided an end date. However, the amendment they provided for review was unsigned by either party.

The OIG found that two IT consultant contracts and a contract for the grantee's financial statement auditor were sole-sourced. Sole-sourced contracts are contracts established without a competitive process and require justification that only one known source exists or that only a single vendor can fulfill the requirements. However, there was no documented sole-source justification for these contracts.

Additionally, the OIG found that CCLS contracted with the same audit firm to perform their financial statement audit for over ten years. However, the long-standing contract had never been recompleted.

The OIG found three contracts were missing signatures from all parties. We found two contracts in which \$25,000 or more was charged to LSC and LSC prior approval was not sought or obtained. We also determined that grantee documentation was not maintained in a central file.

Grantee management stated that they are working to improve their documentation and many of the issues were the result of turnover. She stated the grantee is aware of these deficiencies and are working to better document each contract action.

The LSC Accounting Guide § 3-5.16, states, "The process used for each contract action should be fully documented and the documentation maintained in a central file."

The CCLS Procurement and Contracting Policies state that source documents for all transactions will be filed and maintained by the fiscal department. Additionally, source document data must be enough to establish a basis for the selection, basis for cost, rationale for method of procurement and selection of contract type, and basis of payment. LSC Program Letter 16-3 recommends recompeting long-standing contracts every three to five years to ensure the best value is obtained.

According to 45 CFR § 1630.6 (b), a recipient may not expend \$25,000 or more of LSC funds on a single contract for services without LSC's prior written approval.

Proper documentation helps ensure that the grantee follows all established contracting procedures and receives the agreed-upon services. If longstanding contracts are not periodically rebid, there is a possibility the grantee is not receiving the best value for their

money. Without seeking prior approval from LSC for entering into contracts or services that use more than \$25,000 of LSC funds, the grantee is not in compliance with 45 CFR § 1630.6 (b).

**Recommendation 11:** The Executive Director should enhance CCLS' contracting practices, policies, and procedures to ensure that:

- All contracts and supporting documentation are maintained in a central file.
- Supporting documentation should include documentation related to vendor competition, including evaluation of bids, rationale for vendor selections, and sole-source justifications if applicable.
- All contracts contain clearly defined contract elements including a clear scope of work, end date, and billing rates.
- Policies and procedures are developed and followed to recompet long-standing contracts.
- LSC prior approval is sought and obtained for any contracted services of \$25,000 or more of LSC funds.

## PAYROLL

The OIG reviewed the grantee's written policies and procedures, and practices in place to determine whether they are comparable to LSC's *Fundamental Criteria* and adhere to LSC regulations and guidelines. In performing testwork, the OIG judgmentally selected payroll records of 15 employees from 13 pay periods, to determine if the payroll records were accurate, complete, and appropriately approved.

We determined that CCLS generally had adequate internal controls and mostly adhered to LSC's *Fundamental Criteria*, as well as its own written policies and procedures over payroll. However, we found discrepancies in employee payroll records and one instance where an employee approved their own timesheet.

### Discrepancies in Payroll Records

In our review of 13 pay periods, the OIG found 14 instances in which the hours recorded in employee timesheets did not match or were not recorded in the payroll register. These discrepancies were due to inaccurate coding in the payroll registers and changes made to the payroll registers without adequate documentation.

#### *Inadequate Payroll Coding*

The OIG noted nine instances in which employee time was not properly recorded in employee timesheets due to a lack of proper payroll coding. The OIG found that the payroll registers that corresponded with eight timesheets included overtime and compensatory time hours that were not recorded on the timesheets.

Grantee management stated that the hours did not appear on the timesheets because these were compensatory time and overtime payouts that were manually entered into the payroll system and therefore are not recorded on timesheets. Grantee management provided the OIG with documents illustrating manual entries in the payroll system for these amounts, as well as accurate records of the amount of compensatory time and overtime to be paid out. However, CCLS did not use the proper code to categorize the payouts.

Additionally, one employee's COVID-19 related leave was not coded properly in the payroll register. For example, a portion of this time was coded to leave related to Administrative Professionals' Day. Grantee management stated that this was because the payroll system did not yet have a code for COVID-19 related leave.

#### *Payroll Changes Lacked Adequate Documentation*

We also noted five instances where the hours recorded in the timesheet for regular hours or leave hours did not match the amounts in the corresponding payroll registers.

Grantee management stated that these discrepancies resulted from when a timesheet had been approved but later needed changes to be in accordance with the CCLS collective bargaining agreement. These changes were not reflected in the employee timesheets.

The LSC Accounting Guide § 3-5.5 states that time records must be maintained for each employee and that they must be approved by the employee's supervisor. Appendix VII states that payroll totals should be checked against the original time records and explanations should be provided for any variances.

The CCLS Accounting and Fiscal Policies Manual requires that the Fiscal Officer maintains a labor distribution record documenting all charges of gross payroll expenses and that all employees must record time worked and leave taken for payroll purposes.

The lack of an adequate payroll register may result in unauthorized amounts withheld from employees and improper tax withholdings. Additionally, inadequate payroll records may result in improper employee payments.

#### Lack of Supervisor Review

The OIG found one instance in which an employee approved their own timesheet, in violation of CCLS policy.

Grantee management stated that the employee's supervisor was not available during the pay period in question, and the self-approval was done in order to ensure timely processing of payroll.

The CCLS Accounting and Fiscal Policies Manual states that upon completion, employees must submit their timesheets to their supervisor for approval. The LSC Accounting Guide states that time records for each employee must be approved by the employee's supervisor.

Self-approval of timesheets may lead to an employee receiving payment for days or hours not worked.

The Executive Director should ensure:

**Recommendation 12:** that CCLS' payroll system includes codes that correspond with the specific types of payouts and leave offered to CCLS employees and that staff are provided training on their proper use.

**Recommendation 13:** payroll totals are checked against labor distribution totals and that explanations for any variances are fully described, adequately documented, and kept on file.

**Recommendation 14:** employee time and attendance records are reviewed and approved by proper supervisory personnel and that processes are in place to ensure appropriate approval of timesheets in the absence of the employee's supervisor.



## FIXED ASSETS

To evaluate whether CCLS had adequate internal controls in place over fixed assets, the OIG reviewed CCLS' policies, procedures, and practices in place over purchasing, recording, inventorying, and the disposal of fixed assets.

The OIG reviewed the grantee's written policies as documented in its Accounting and Fiscal Policies Manual and conducted interviews and virtual walkthroughs with key CCLS staff. We reviewed the grantee's accounting records and audited financial statements for any capital acquisitions and major property dispositions. We also judgmentally selected 11 items being tracked in the grantee's property records and electronic device tracking logs to determine if they were accurately recorded in the grantee's property records and asset tracking software.

As a result of our review, the OIG found that CCLS had adequate policies and procedures over purchases of fixed assets. However, the policies and practices related to the recording and inventorying of fixed assets were lacking key controls and in some cases were not reflective of current practices. Also, of the 11 items we sampled from the property records, we found that one was inaccurately listed.

### Inadequate Inventory Procedures

While the grantee kept records of fixed assets, as required by LSC criteria, and performed an inventory in 2018, it is not clear if there were any differences noted between the property records and the general ledger, and if there were differences, how they were reconciled. Furthermore, the grantee's written policies and procedures do not specify who is responsible for performing the inventory and reconciling the inventory to the general ledger.

According to grantee management they realized there was a deficiency and took some actions to reconcile the inventory. They are now updating processes to include specific documentation of the inventory reconciliations.

The LSC Accounting Guide § 2-2.4 states that "For property control purposes, a physical inventory should be taken, and the results reconciled with the property records at least once every two (2) years."

According to the *Fundamental Criteria*, "the individual responsibility for the timeliness and accuracy of each report, ledger, journal, procedure, and form should be documented in the recipient's accounting manual."

Failure to reconcile inventory on fixed assets may result in the inability to identify missing assets, thereby not properly tracking potential theft or disposal of assets. The failure to assign responsibilities may result in increased errors and a reduction in accountability.

### Practices Not in Line with Policies

CCLS written policies and procedures describe a Capital Asset Log which contains all the property recording elements outlined in the LSC Accounting Guide. The OIG found through testing and interviews that the Capital Asset Log does not exist. However, the required information can be found in the grantee's accounting system, inventory records, and depreciation schedules.

Also, while the grantee is adequately tracking electronic devices with remote tracking software, they are not following their own policies of tagging electronic items. The OIG noted during testwork that the grantee is using serial numbers on electronic devices as tagging numbers within the tracking software, but this practice is not reflected in the grantee's policies.

According to grantee management, the reference to the Capital Asset Log was an error, and the grantee uses a Fixed Asset Schedule to track capital assets.

The LSC Accounting Guide § 3-4 states that "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*."

When grantee written policies are not reflective of current practices, there may be confusion in the completion of essential internal control functions, especially in times of staff turnover.

### Inaccurate Property Records

One of the eleven fixed asset items in our sample was listed in the inventory records as a Dell copier located in the copy room of the grantee's central office. When selected for testing, the IT manager was unable to locate this exact item. He stated that the individual listing appeared to be in error, and the identification number was associated with a Dell Inspiron Laptop. The IT manager was able to provide his own record from the grantee's computer tracking software that shows the laptop properly identified.

According to grantee management, the transition from paper logs to spreadsheets, as well as a recent staffing relocation from the basement to the upper floors of the building contributed to the discrepancy between the information.

The CCLS Accounting and Fiscal Policies Manual requires the maintenance of inventory records containing the location and description of items with sensitive and confidential information.

Failure to maintain adequate property records can result in difficulty accounting for and tracking property. Inadequate records can also result in items being lost or stolen without management's knowledge. Also, without an adequate and complete record for all

electronic items, there is no assurance that the grantee is properly safeguarding the equipment and information contained therein.

The Executive Director should:

**Recommendation 15:** ensure that upon completion of the biennial inventory, any differences between the property records and general ledger are noted and reconciled.

**Recommendation 16:** update the CCLS Accounting and Fiscal Policies Manual to include policies and procedures with the following elements:

- Processes for reconciling inventory to the general ledger;
- Designation of a staff member who is responsible for reconciling the inventory results to general ledger;
- Designation of a staff member who will perform the biennial inventory;
- The grantee's current practices for tracking capital assets and electronic devices; and
- The grantee's current process for maintaining property records and eliminate references to non-existent documents.

**Recommendation 17:** ensure that all property records are reconciled to the general ledger and are current and accurate.

## GENERAL LEDGER AND FINANCIAL CONTROLS

The OIG performed a review of CCLS' processes and written policies over general ledger and financial controls to determine if they provide adequate internal controls and adhere to LSC regulations and guidelines. Specifically, the OIG reviewed the grantee's processes and policies over bank reconciliations, cash receipts, use of petty cash, electronic banking transactions and trial balance reports.

CCLS had six active bank accounts and closed one bank account within the audit period. CCLS had a petty cash balance of \$250 in two office locations.

For the most part, the OIG found CCLS had adequate processes and policies in place over cash receipts and electronic banking transactions and generated a trial balance report each month. However, CCLS had checks outstanding for over six months, unallowable transactions were made with petty cash funds, and there were inadequate written policies and procedures over petty cash.

### Checks Outstanding More Than Six Months

Out of 42 bank reconciliations reviewed from seven bank accounts, the OIG found five checks from the operating account totaling \$542 that have been outstanding for over six months (See Table 6).

**TABLE 6: Outstanding Checks**

Bank Reconciliation Month	Number of Checks Outstanding	Amount of Checks
April 2020	2	\$221
May 2020	3	\$321
<b>Total</b>	<b>5</b>	<b>\$542</b>

Grantee management stated the outstanding checks were the result of office closures due to COVID-19 and that they are continuing to monitor outstanding checks in performing bank reconciliations.

The CCLS Accounting and Fiscal Policies Manual states that all checks outstanding for six or more months are to be investigated, resolved, voided, or reissued and handled in accordance with California's unclaimed property and escheat laws. In addition, the LSC Accounting Guide, Appendix VII, indicates that checks outstanding for over six months should be investigated and resolved.

Proper reconciliation procedures will improve the chances that irregular disbursements and recording errors are discovered on a timely basis.

### Inadequate Policies over Petty Cash

In general, the grantee's written policies and procedures over general ledger and financial controls were adequate and adhered to LSC regulations and guidelines. However, the OIG found that the written petty cash policies and procedures did not include procedures for overages, shortages, or losses.

Per grantee management they have no recollection of having experienced an overage, shortage, or loss in petty cash funds. In some cases, policies were verbally communicated to employees. Grantee management also stated that CCLS will review and update the Petty Cash Policy to include procedures for overage, shortage, and losses.

The LSC Accounting Guide § 3-4 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*." The LSC Accounting Guide, Appendix VII provides guidelines and indicates that petty cash policies should include procedures for overages, shortages, and losses.

Inadequate written policies over petty cash may result in misuse of petty cash funds and significant loss over time.

The Executive Director should:

**Recommendation 18:** investigate, resolve, void, or reissue checks that have been outstanding for more than six months per the Accounting and Fiscal Policies Manual.

**Recommendation 19:** update the petty cash policies and procedures to include policies and procedures for petty cash overages, shortages, and losses.

## EMPLOYEE BENEFITS

The OIG reviewed the grantee's written policies and procedures as well as practices in place to determine whether their processes are comparable to LSC's *Fundamental Criteria* and adhere to LSC regulations and guidelines. In performing testwork, the OIG reviewed a judgmental sample of CCLS employees receiving various loans and reimbursements from CCLS as outlined in the CCLS Personnel Policies and Procedure Manual (See Table 7).

**TABLE 7: Employee Benefits Tested**

Benefit Type	Total Population	Population Tested
School Loan Reimbursements	35	5
Cell Phone Reimbursements	11	5
Salary Advances	7	7
Computer Loans	6	6
Internet Reimbursements	2	2
Bar Loans	1	1

The OIG tested internal controls and documentation related to these benefits to determine if they were adequately supported and if the benefits were equitably distributed in accordance with applicable laws and regulations, as well as the grantee's written policies and procedures. In general, CCLS had adequate internal controls over employee benefits and was in compliance with LSC regulations. However, we found eight instances where the grantee did not adhere to its own written policy of submitting reimbursement requests before issuance of a School Loan Reimbursement Assistance Program (SLRAP) payment.

### Inadequate SLRAP Reimbursements Documentation

There were 63 SLRAP reimbursements made over the audit period to the five employees in our sample. The OIG found that eight of these reimbursements totaling \$1,457 did not include documentation of the SLRAP reimbursement requests and proof of payment.

Grantee management stated that they are reviewing their electronic storage and filing practices to ensure all items are stored appropriately.

The CCLS Personnel Policies & Procedures Manual states that each month the staff must fill out a CCLS form requesting reimbursement of the school loan payment made that month and attach documented support that the recipient made the payment.

Non-adherence to grantee policy may result in an employee receiving unauthorized payments.

The Executive Director should:

**Recommendation 20**: obtain, document, and store all supporting documentation of SLRAP reimbursement requests and proofs of payment in accordance with the grantee's policy and so that they can be accessed in the future, if necessary.

## CLIENT TRUST FUNDS

The OIG reviewed the grantee's written policies and procedures as well as practices in place to determine whether their client trust fund processes are comparable to LSC's *Fundamental Criteria* and adhere to LSC guidelines. In performing testwork, the OIG reviewed and performed judgmental selection of two months of client trust fund activity, including receipts, disbursements, account reconciliations, and recording of client trust funds. The OIG judgmentally selected samples based on months with high amounts of client trust activity.

As a result of our review, the OIG found CCLS generally had adequate policies, processes, and procedures for the recordation, receipt, and disbursement of client trust funds as well as performance of reconciliations of the client trust bank account. However, we found they were not always issuing prenumbered receipts for money received from clients.

### Lack of Prenumbered Receipts

While the OIG found that the grantee issued prenumbered receipts for cash received from clients, they did not issue prenumbered receipts for other forms of payment such as checks. For two transactions sampled, the grantee did not issue prenumbered receipts as required by the grantee's policies and the LSC *Fundamental Criteria*. Both transactions involved bank checks received from clients.

According to CCLS management, they are updating their client trust fund receipt policies.

The LSC Accounting Guide § 3-5.7(e) states that "Prenumbered receipts shall be issued for all money received from clients."

Additionally, the CCLS Accounting and Fiscal Policies Manual states:

The designee will collect the funds from the client, then give those funds to the Legal Secretary who will prepare the Client Trust Receipt using prenumbered receipts. One part of the form will be given to the client. Client Trust Receipts are pre-numbered and must be issued in sequence.

Failure to have prenumbered receipts can result in the misappropriation of client funds.

The Executive Director should:

**Recommendation 21**: ensure prenumbered receipts are issued for all forms of payments received from clients and duplicate copies of prenumbered receipts are maintained on-file.



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

CCLS provided their responses to the OIG's Draft Report via email on July 15, 2021. CCLS management agreed with all findings and the 21 recommendations. CCLS' responses are included in their entirety in Appendix IV.

The OIG considers CCLS' comments and proposed actions to the 21 recommendations as responsive. However, these recommendations will remain open until the OIG receives the following items:

- **Recommendation 1:** Updated, board approved credit card policies and procedures and documentation to verify that training related to LSC unallowable costs was provided to cardholders and fiscal staff.
- **Recommendation 2:** Most recent card statements and supporting documentation for all CCLS credit cards as well as updated, board approved credit card policies and procedures.
- **Recommendation 3:** Documentation of the most recent review of the executive director's credit card expenses as well as updated, board approved credit card policies and procedures.
- **Recommendation 4:** Signed Credit Card User Agreement forms from all authorized cardholders as well as updated, board approved credit card policies and procedures.
- **Recommendation 5:** Updated, board approved credit card policies and procedures.
- **Recommendation 6:** Updated, board approved policies and procedures related to LSC unallowable costs as well as documentation that training on LSC unallowable costs was provided to fiscal staff.
- **Recommendation 7:** Samples of the most recent disbursement transactions reflecting that prior approvals, check requests and receipts are documented prior to payment as well as documentation that training related to the disbursement and procurement process was provided to staff.
- **Recommendation 8:** Documentation that training related to the allocation of attorneys' fees was provided to fiscal staff.
- **Recommendation 9 and 10:** Updated, board approved policies and procedures on the filing and allocation of attorneys' fees.
- **Recommendation 11:** Updated, board approved contracting policies and procedures.
- **Recommendation 12:** Updated list of payroll codes generated from the new payroll software, as well as supporting documentation of training related to the use of appropriate payroll codes.
- **Recommendation 13:** Most recent payroll records reflecting the review and reconciliation process has been implemented.
- **Recommendation 14:** Most recent employee time and attendance records reflecting proper review and approval by supervisory personnel, as well as

supporting documentation of training related to the review and approval of attendance records in the payroll system.

- **Recommendation 15 -17:** Updated, board approved policies and procedures on inventory processes.
- **Recommendation 18:** Supporting documentation from the most recent bank reconciliation reflecting that checks outstanding for more than 6 months are resolved, as well as updated, board approved policies and procedures related to outstanding checks.
- **Recommendation 19:** Updated, board approved petty cash policies and procedures.
- **Recommendation 20:** Updated, board approved policies and procedures on the documentation and filing of SLRAP.
- **Recommendation 21:** Updated, board approved client trust fund policies and procedures as well as support for training related to client trust accounting.

Additionally, the OIG is referring the following questioned costs to LSC management for review and action:

- LSC unallowable credit card expenditures totaling \$3,008. These expenditures included unallowable food and meal purchases and a membership fee to a private nonprofit organization.
- Purchases with LSC funds totaling \$7,761 that we determined were not reasonable or necessary for the purpose of the LSC grant or were not adequately and contemporaneously documented.
- Attorneys' fees totaling \$1,902 that were not properly allocated to LSC.

## **APPENDIX I – SCOPE AND METHODOLOGY**

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

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

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 May 1, 2018, through May 31, 2020. During derivative income testwork, we noted exceptions in the recording and allocating attorneys' fees for calendar year 2018. To fully understand the exceptions and their impact, we expanded the scope of the attorneys' fees testwork to January 1, 2018, to May 31, 2020, in accordance with Government Auditing Standards: Chapter 8, Fieldwork for Performance Audits.

To obtain an understanding of the internal control framework and CCLS' processes over areas listed above, the OIG (1) reviewed the grantee's policies and procedures, including manuals, guidelines, memoranda, and directives setting forth current grantee practices, and (2) interviewed grantee management and staff.

To review and evaluate internal controls, the OIG designed and performed audit procedures to obtain sufficient and appropriate evidence to support conclusions over the design, implementation, and operating effectiveness of controls significant to the audit objective. Furthermore, the OIG conducted direct tests, including inquiry, observation, examination, and inspection of 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 for LSC Recipients.

In accordance with government auditing standards, the OIG assessed the reliability of CCLS' computer-generated data. To determine whether the data is reasonably complete, accurate and consistent, the OIG reviewed supporting documentation, conducted interviews, performed logical tests, traced to and from source documents, and reviewed

selected system controls. The OIG determined the data to be sufficiently reliable for the purposes of this report.

The OIG also assessed significance and audit risk. The OIG determined that internal controls in select financial and operational areas mentioned above were significant to the audit objective. Audit risk is defined as the possibility that audit findings, conclusions, recommendations, or assurance may be improper or incomplete as a result of factors such as evidence that is not sufficient or appropriate, inadequacy of the audit process, or intentional omissions or misleading information due to misrepresentation or fraud. Based on our consideration of these factors, we determined the audit risk level to be low.

A non-statistical sampling methodology was used to select samples for testing. The OIG determined that a non-statistical methodology would be appropriate based on the audit objective and scope as well as the nature of the grantee, and the audit timeline. Our results cannot be projected to the audit universe and are not intended to make inferences about the populations from which our samples were derived.

To test the appropriateness of expenditures and the existence of adequate supporting documentation, the OIG reviewed disbursements made by CCLS for transactions other than credit cards and payroll. We judgmentally selected a sample of 85 disbursements for testwork, totaling \$554,834. The transactions selected included substantial amounts, potentially LSC unallowable transactions, and atypical vendors, as well as routine disbursements for employee reimbursements and office supplies, among others. The sample represented approximately five percent of the \$11,741,903 disbursed for transactions other than credit cards and payroll during the period May 1, 2018, through May 31, 2020. To assess the appropriateness of expenditures, we reviewed invoices and supporting documentation, then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated based on the grant agreements as well as applicable laws and regulations and LSC policy guidance.

In addition to the disbursements, the OIG judgmentally selected five months of credit card statements from the general ledger. From the five months of credit card statements, we again judgmentally selected 45 credit card transactions along with one additional credit card transaction identified in the general ledger, totaling 46 credit card transactions and \$39,362. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

To evaluate and test internal controls over employee benefits, payroll, contracting, client trust funds, management reporting and budgeting, general ledger and financial controls, as well as derivative income, the OIG interviewed appropriate program personnel. Additionally, we examined related policies and procedures as applicable and selected specific transactions to review for adequacy and compliance with LSC regulations and guidelines.

To evaluate the adequacy of the cost allocation process and to determine whether the allocation methodology was reasonable and in compliance with LSC regulations and

guidelines, the OIG discussed the process with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We reviewed selected transactions to determine if the amounts allocated were in conformity with the documented allocation process and if the transactions were properly allocated in the allocation spreadsheet and the general ledger. Controls over the purchase, inventory, disposal, and recording of property and equipment were reviewed by examining current grantee practices in comparison with LSC regulations as well as policies outlined in the Accounting Guide for LSC Recipients.

Fieldwork was conducted remotely due to safety concerns related to the COVID-19 pandemic. Fieldwork was from July 20, 2020, through October 13, 2020. Interviews were conducted by remote video conferencing. Documentation for review was electronically submitted to us by the grantee as well as by LSC management. Documents reviewed pertained to the period May 1, 2018, through May 31, 2020, except for those related to attorneys' fees, which pertained to the period of January 1, 2018, through May 31, 2020.

The 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 findings and conclusions based on the audit objective. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

The OIG assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the internal control components and underlying principles that we determined to be significant to the audit objective as shown in Appendix II – Assessment of Internal Control Components and Principles. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Additionally, the OIG assessed whether it was necessary to evaluate information systems controls. The OIG determined that information system controls were significant to the audit objective and evaluated information system controls related to specific grantee operations, oversight, program expenditures, and fiscal accountability. Our internal control review includes performing audit procedures related to information system controls to obtain sufficient, appropriate evidence to support and document our findings and conclusions on implementation and effectiveness of internal controls at the grantee. The OIG determined that no further audit procedures relating to information systems controls were needed.

## **APPENDIX II – ASSESSMENT OF INTERNAL CONTROL COMPONENTS AND PRINCIPLES**

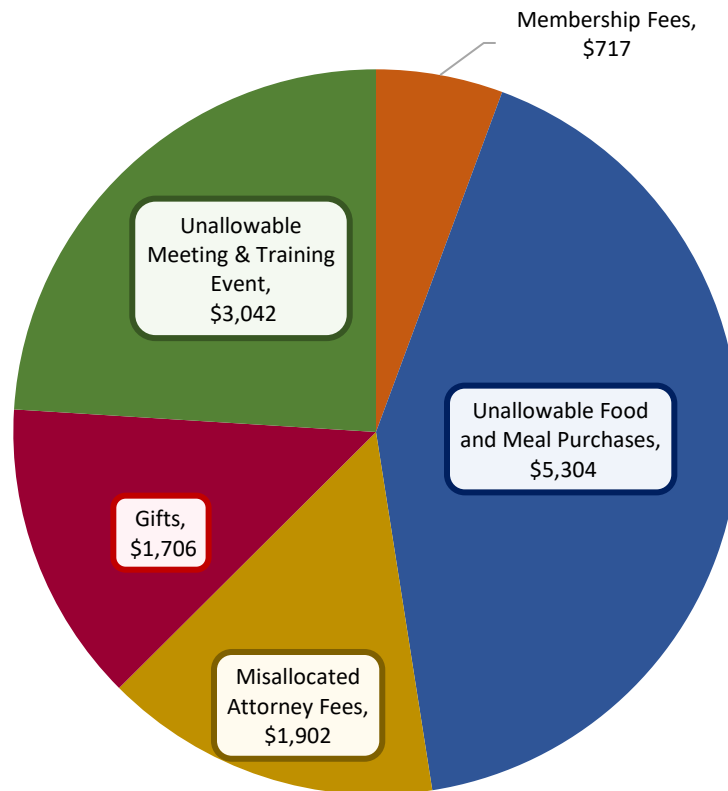
### **Internal Control Principles Significant/Material to the Audit Objective<sup>2</sup>**

<b>INTERNAL CONTROL COMPONENT</b>		<b>PRINCIPLE</b>	
<b>NAME</b>	<b>OVERVIEW</b>	<b>NUMBER</b>	<b>DESCRIPTION</b>
<b>CONTROL ENVIRONMENT</b>	The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.	2	The Oversight Body Should Oversee the Entity's Internal Control System
		3	Management Should Establish an Organizational Structure, Assign Responsibility, and Delegate Authority to Achieve the Entity's Objectives
<b>CONTROL ACTIVITIES</b>	Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.	10	Management Should Design Control Activities to Achieve Objectives and Respond to Risks
		11	Management Should Design the Entity's Information System and Related Control Activities to Achieve Objectives and Respond to Risks
		12	Management Should Implement Control Activities Through Policies

<sup>2</sup> The numbers correspond with the principles outlined in the *Standards for Internal Control in the Federal Government* (GAO-14-704G). While principles 1, 4, 5, 6, 7, 8, 9, 16 and 17 were considered during the audit, these principles were determined not to be significant to the audit objective.

Internal Control Component		Principle	
Name	Overview	Number	Description
<b>INFORMATION AND COMMUNICATION</b>	Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events.	13	Management Should Use Quality Information to Achieve the Entity's Objectives
		14	Management Should Internally Communicate the Necessary Quality Information to Achieve the Entity's Objectives
		15	Management Should Externally Communicate the Necessary Quality Information to Achieve the Entity's Objectives

**APPENDIX III – QUESTIONED COSTS REFERRED TO LSC MANAGEMENT**







**CENTRAL CALIFORNIA  
LEGAL SERVICES**  
JUSTICE. EQUITY. POWER.

July 15, 2021

Legal Services Corporation  
Office of Inspector General  
Via Email

Re: Report on Selected Internal Controls

Dear Office of Inspector General:

While 2020 was a difficult year in all regards, the positive experience CCLS had engaging with the auditors was a welcome opportunity to review and strengthen our policies and practices. Considering the rapid changes to operating environments, including remote work and decreases in staff capacities, the need to continually review, update, and train on policies and procedures was made clearer. To this end, CCLS has been working to cross-train, review, update, enhance, and overall improve our controls and procedures.

We appreciate the time and guidance provided by the Legal Services Corporation Office of Inspector General during the recent audit of the controls and procedures in the following areas:

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

CCLS has reviewed the Draft Report and other documents provided by the OIG in order to better understand and prioritize our actions to address the Recommendations in the following areas:

- Credit Cards (Recommendations 1-5)
- Disbursements (Recommendations 6-7)
- Derivative Income (Recommendations 8-10)
- Contracting (Recommendation 11)
- Payroll (Recommendations 12-14)
- Fixed Assets (Recommendations 15-17)
- General Ledger and Financial Controls (Recommendations 18-19)
- Employee Benefits (Recommendation 20)
- Client Trust Funds (Recommendation 21)



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CCLS has concluded that we agree with all 21 recommendations. The Responses and Comments to the Recommendations have been provided on the Recommendation Tracking form; the remainder of this letter outlines our responses to the audit report.

**Credit Cards (Recommendations 1 – 5)**

Credit Cards are issued to key personnel in the organization to facilitate certain transactions that are more efficiently handled via this payment method (i.e. booking travel, online-only purchases). These personnel include the Executive Director, Legal Director, Director of Administration, and an office manager in each of the outlying offices (Merced and Visalia).

Use of these cards is guided by the Credit Card Policy in the CCLS Accounting and Fiscal Manual, Credit Card Use Agreement, and various other policies related to purchases and procurements. CCLS created the Credit Card Use Agreement form based on OIG recommendations and is in the process of incorporating this form into an updated Credit Card Policy. A renewed focus on policies and procedures for incurring expenditures, reviewing documentation, and monitoring usage has allowed CCLS to explore additional opportunities to become more efficient.

One such example is the implementation of Microix, an automated workflow software that integrates with our accounting software. Additional uses of Microix in the credit card use and approval process are being explored.

***Recommendation 1: ensure that LSC unallowable credit card expenses are not charged to LSC.***

CCLS is implementing policy updates that will serve as an opportunity to re-educate the organization on the allowable uses of LSC funds specifically, and other funds generally. Training card holders and the Fiscal Department staff on reviewing and monitoring for these types of transactions is an ongoing effort that will continue to be part of standard operations.

***Recommendation 2: ensure that adequate supporting documentation is maintained and verified for all credit card transactions before payment is made.***

While this has always been a requirement, we acknowledge that there have been occasions where supporting documentation was either not obtained, or obtained and not stored appropriately. Our updated policy and Credit Card Use Agreement address the importance of ensuring this takes place every time, and prescribe protocols to make that straightforward to do. Additional considerations for electronic documentation storage are also underway.

***Recommendation 3: ensure that the CCLS Board of Directors appoints a board member to review and approve the Executive Director's credit card expenses and a substitute member who can review in the appointed member's absence.***

CCLS Fiscal Director is working with the Treasurer of the Board of Directors to ensure this happens, and the titles of the responsible board members are documented in the accounting policy manual under "Review and Approval of Executive Director Expenses".

***Recommendation 4: develop a credit card user agreement form for authorized credit card holders and users to read, acknowledge, and sign. The agreement may include, but not be limited to, repayment terms and conditions for personal use or misuse of the card. The signed agreement should be retained in a central file.***

This form has been developed and is being reviewed by Administration. The finalized form will become part of the Accounting and Fiscal Policy Manual, and will be incorporated into current operating processes. Cardholding employees will execute the forms, which will be deposited in the respective employees' personnel files.

***Recommendation 5: update the credit card policies and procedures in the CCLS Accounting and Fiscal Policies Manual to accurately reflect current practices. The manual should also be updated to include detailed policies and procedures for the following areas:***

The items in this recommendation are currently being incorporated into the updated Accounting Manual slated to be delivered to the CCLS Board of Directors in August 2021.

#### **Disbursements (Recommendations 6 – 10)**

The disbursements process has evolved over the years due to operating necessity. As CCLS continues to grow and explore ways to become more efficient, we are keeping a closer eye on opportunities to enhance our policies, trainings, and procedures. One such example is the implementation of Microix, an automated workflow software that integrates with our accounting software. Microix allows for more efficient routing of documents for review and approval, posting to the General Ledger, and documentation of the workflow approval process. We are also planning systems for documentation, storage, and retention in anticipation of auditors' annual requests.

The need for appropriate documentation has always been part of CCLS requirements and we acknowledge the need to review and update our practices. We have begun the process of establishing a mini "awareness campaign" surrounding LSC unallowable transactions and the expectation of what should be included in supporting documentation (i.e., agendas from training events).

#### ***Recommendation 6: ensure that when processing disbursements, LSC unallowable costs are not charged to LSC.***

CCLS is implementing policy updates that will serve as an opportunity to re-educate the organization on the allowable uses of LSC funds specifically and other funds generally. Updated training for the Fiscal Department staff on reviewing and monitoring for these types of transactions is an ongoing effort that will continue to be part of standard operations.

#### ***Recommendation 7: ensure that prior approvals, including check requests, are obtained, and properly documented before payment is made per the CCLS Accounting and Fiscal Policies Manual, and that all such approvals and documentation are maintained in file.***

All parties involved in the disbursements process will be provided additional trainings on the CCLS procurement and disbursements processes. This will help all staff understand what is required before payment, and serve as a guide for Fiscal Department staff to enforce the established policies.

#### **Derivative Income**

The CCLS derivative income practices were reviewed internally and a policy/ procedure was updated in 2019. Due to an oversight, this policy was not documented or incorporated into the CCLS Accounting and Fiscal Manual. The Policy has since been documented and is being provided to the CCLS Board of Directors Executive Committee on July 20 for approval and inclusion in the Manual.

Prior to 2017, CCLS had neither the capacity nor the practice of pursuing attorneys' fees; since that time, CCLS has conveyed management expectations that CCLS will recover attorneys' fees in every case where they can legitimately be claimed. The Legal Director now provides monthly oversight in meeting with team leads, who meet regularly with advocates to make sure timely attorney's fees' applications are filed. The Fiscal Department will apply the Derivative Income Policy to all such attorney's fees when received.

#### ***Recommendation 8: ensure that attorneys' fees are consistently and equitably allocated to the LSC grant.***

CCLS Fiscal Staff tasked with this responsibility are being provided updated and cross-trainings surrounding this process. We expect no future issues with this process.

#### ***Recommendation 9: implement policies and procedures to ensure the timely filing of attorneys' fees claims.***

CCLS Legal Director has implemented procedures to ensure the timely filing of attorneys' fees claims. A reference to this will be incorporated in the CCLS Accounting and Fiscal Manual.

***Recommendation 10: update the Board-approved accounting manual to include the written policies related to attorneys' fees.***

This recommendation is in process, with the Derivative Income Policy heading to the board, and the language to capture the timely filing of attorneys' fees being incorporated into the CCLS Accounting and Fiscal Manual for the August Board of Directors meeting.

**Contracting (Recommendation 11)**

The CCLS Director of Administration is working with the Director of Fiscal Services to renew focus on the Contracting processes. This includes reviewing, revising, and updating the billing and invoicing processes, sole-source/ RFP processes, and LSC Funds Usage (45 CFR 1630.6 monitoring). Reviews of the various functions (Procurements, Contracting, Disbursements) are underway and will continue to be part of annual updates, and more frequently as necessary.

Clearly defining staff roles and responsibilities in the process has been proposed as an ongoing agenda item for operations meeting. This will allow the various Staff involved to communicate and coordinate more effectively, and will help CCLS establish or update the required elements of the Procurements and Contracting functions.

***Recommendation 11: The Executive Director should enhance CCLS' contracting practices, policies, and procedures.***

The process for implementing this recommendation is underway and ongoing. The existing policies are under review, and new practices are being added to ensure that all supporting documentation is maintained in a central file location, that supporting documentation is appropriate and relevant, that contracts contain clearly defined elements, and that LSC prior approval is sought and obtained when necessary.

**Payroll (Recommendations 12 – 14)**

CCLS transitioned to new payroll processing software in August of 2020. This transition helped us identify and focus on areas needing improvement. We have placed additional focus on staff and supervisor training to address the items also noted by the OIG auditors.

***Recommendation 12: that CCLS' payroll system includes codes that correspond with the specific types of payouts and leave offered to CCLS employees and that staff are provided training on their proper use.***

The creation of appropriate payroll codes has occurred. The CCLS Fiscal Department and Human Resources now work closely to identify and establish appropriate payroll codes, and to train staff and supervisors on how/ when to use them. The new payroll software also allows CCLS to add announcements and to interact directly with staff regarding these issues as they occur.

***Recommendation 13: payroll totals are checked against labor distribution totals and that explanations for any variances are fully described, adequately documented, and kept on file.***

The process to review and reconcile payroll total against labor distribution totals has been in place, and we acknowledge the need to document it. Fiscal Staff will be cross-trained on the processes and these processes will be incorporated as part of our written standard operating procedures. Fiscal Staff will document and retain documentation of variances as part of our monthly allocation and billing processes.

***Recommendation 14: employee time and attendance records are reviewed and approved by proper supervisory personnel and that processes are in place to ensure appropriate approval of timesheets in the absence of the employee's supervisor.***

New training, especially regarding the relationship of time entries between the case management software and the payroll software, is underway. The importance of supervisor involvement in the reconciliation process will be a regular part of the existing supervisor and team-leader meetings and is being included in all new-hire and promotion orientations.

### **Fixed Assets (Recommendations 15 – 17)**

The fixed assets tracking and monitoring processes have evolved since 2017. Originally, items were tracked using spreadsheets; these were then transitioned into a new online tracking platform and then moved to a second online platform. All of these changes were made with the expectation that they would bring enhancements, and CCLS acknowledges that more improvements are needed.

The tracking, monitoring, updating, physical inventory, and reconciliation processes are currently a collaborative effort between Fiscal, IT and Administration. A regular check-in between these parties is being established in order to update and revise the processes as necessary. We believe these efforts will bring practices back in line with policies, allow for accurate property records to be maintained, and correct any inadequate inventory procedures.

#### ***Recommendation 15: ensure that upon completion of the biennial inventory, any differences between the property records and general ledger are noted and reconciled.***

CCLS Fiscal staff, IT staff and Admin staff are working collaboratively to update these practices. We expect that updated policies and procedures will be provided to the Board for approval and inclusion in the CCLS Accounting and Fiscal Policy Manual by the fall of 2021. This timeline will also be in preparation for an inventory review in 2022, as the last full physical inventory was taken in 2020.

#### ***Recommendation 16: update the CCLS Accounting and Fiscal Policies Manual to include policies and procedures with the following elements:***

The Policy is currently under review to address the processes for reconciling inventory to the general ledger, outlining responsibilities, and monitoring tracking and disposals. This updated policy will address the OIG recommendation and will be completed by the Fall of 2021.

#### ***Recommendation 17: ensure that all property records are reconciled to the general ledger and are current and accurate.***

Month-end and year-end procedures are being updated to ensure that all property records are timely reconciled to the general ledger, and that such records are accurate. The current Monthly Close procedures in the CCLS Accounting and Fiscal Manual address this, and these procedures will be part of upcoming and ongoing cross trainings in the Fiscal Department.

### **General Ledger and Financial Controls (Recommendations 18 – 19)**

CCLS has a robust Accounting System for general ledger and financial controls, but we acknowledge that the software is only as good as the staff's understanding of its operation, and of Policy requirements and procedures. To this end, updated cross-trainings are taking place with Fiscal Staff and the various Petty Cash Custodians to address these OIG recommendations.

#### ***Recommendation 18: investigate, resolve, void, or reissue checks that have been outstanding for more than six months per the Accounting and Fiscal Policies Manual.***

Fiscal Staff are being cross trained on the existing processes. Updates to policies and procedures will be made as we explore additional Accounting System capabilities to automate some of this reporting. The current month-end process to review all stale-dated items will be updated and enforced more consistently moving forward.

#### ***Recommendation 19: update the petty cash policies and procedures to include policies and procedures for petty cash overages, shortages, and losses.***

This recommendation has already been implemented, and the required elements are being incorporated into a forthcoming update to this policy, slated to be delivered to the Board of Directors for the August meeting.

**Employee Benefits (Recommendation 20)**

In 2019, CCLS addressed the ever-increasing responsibilities of payroll, human resources, and administration. Payroll responsibilities that previously fell to a Fiscal Assistant were placed with a Fiscal Officer, acknowledging the need for a higher level of skill and accountability. Human Resources was established as a stand-alone position where it had previously been combined with the Director of Administration. All of these changes have resulted from recognition of the complex requirements surrounding payroll, benefits, and the various administrative components of each.

CCLS continually monitors these interrelated processes and the OIG recommendations are a timely addition to our existing improvements being developed.

***Recommendation 20: obtain, document, and store all supporting documentation of SLRAP reimbursement requests and proofs of payment in accordance with the grantee's policy and so that they can be accessed in the future, if necessary.***

CCLS Human Resources and Fiscal Department staff are working collaboratively on a document collection and storage process that meets the needs of both functions. As solutions are developed, the relevant policies will be updated and incorporated in the Payroll Additions, Deletions, and Changes Policy as well as the Document Retention Policy.

**Client Trust Funds (Recommendation 21)**

Maintenance and administration of the Client Trust Accounting processes involves multiple layers, including receipt of funds, tracking, disbursement, and reporting. CCLS has identified the need to review and update the processes for the Client Trust Fund, and the OIG recommendations are a timely opportunity for this.

***Recommendation 21: ensure prenumbered receipts are issued for all forms of payments received from clients and duplicate copies of prenumbered receipts are maintained on-file.***

The Client Trust Accounting Policy in the Accounting and Fiscal Policies Manual is currently under review for updates. CCLS will ensure that the LSC Accounting Guide requirement of prenumbered receipts is included in the policy updates, and that staff are trained in the updated processes.

If you have any questions about this please contact me directly by email at [pmilrod@centralcallegal.org](mailto:pmilrod@centralcallegal.org) or telephone at (559) 570-1214.

Sincerely,

*Patience Milrod*

PATIENCE MILROD  
Executive Director

*CCLS spends all funds in accordance with the LSC Action of 1974, as amended and implementing regulations.*