Office of Inspector General
Legal Services Corporation
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Washington, DC 20007-3558
www.oig.lsc.gov

November 10, 2022

Mr. Robert Doggett
Executive Director
Texas RioGrande Legal Aid
301 South Texas Avenue
Mercedes, TX 78570

Dear Mr. Doggett,

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit on Selected Internal Controls at Texas RioGrande Legal Aid, Inc. Appendix III of the final report includes the grantee's comments to the draft report in their entirety.

The OIG considers the proposed actions to Recommendations 4, 7, 8, 9, 11, 12, 15, 19, and 27 as fully responsive. These nine recommendations are considered closed.

The OIG considers the proposed actions to Recommendations 2, 3, 5, 6, 10, 13, 14, 18, 20, 21, 22, 23, 24, 26, and 29 as responsive; however, these 15 recommendations will remain open until they are completely addressed, and the OIG is provided with the list of items mentioned on pages 23-24, OIG Evaluation of Grantee Management Comments, of the final report.

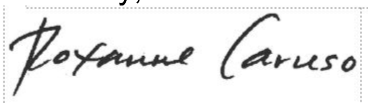
The OIG considers the comments to Recommendations 1, 16, 17, and 25 as partially responsive. These four recommendations will remain open until the OIG is provided a corrective action plan that specifically addresses the recommendations and documentation that the corrective action has been implemented.

The OIG also considers TRLA's comment to Recommendation 28 as partially responsive. TRLA management disagreed with our recommendation and provided a response that suggests that the grantee will likely continue their process as is. This recommendation will also remain open until the grantee reevaluates the associated risk with leaving the process as is and provides a corrective action plan that mitigates the risk.

Please send us your response to close out the 20 open recommendations, along with supporting documentation, within six months of the date of the final report. We thank you and your staff for your cooperation and look forward to receiving your submission by May 10, 2023.

If you have any questions, please contact me at (202) 295-1582. We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,



Roxanne Caruso
Acting Inspector General and Assistant Inspector General for Audit

Enclosure

cc: Legal Services Corporation
Ron Flagg, President

Lynn Jennings
Vice President for Grants Management

<u>Texas RioGrande Legal Aid, Inc. Board of Directors</u>:
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Javier Espinoza
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LEGAL SERVICES

CORPORATION

Office of
Inspector General

Texas RioGrande Legal Aid, Inc.
RNO 744100
Final Report on Selected Internal Controls

Report No. AU 23-01
November 2022

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 Texas RioGrande Legal Aid, Inc. 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) (Accounting Guide), Chapter 3, an LSC grantee is required to establish and maintain adequate accounting records and internal control procedures. The Accounting Guide defines internal control as follows:

> The process put in place, managed, and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:
>
> 1. safeguarding of assets against unauthorized use or disposition;
> 2. reliability of financial information and reporting; and
> 3. compliance with regulations and laws that have a direct and material effect on the program.

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

BACKGROUND

Texas RioGrande Legal Aid, Inc. (TRLA or grantee) is a nonprofit corporation that provides free civil legal services to persons who are financially unable to access the system of justice. TRLA is the largest legal aid provider in Texas and represents residents in a 68-county area in Southwest Texas. TRLA also provides services to migrant and seasonal farm workers throughout Texas and six other southern states.

According to the audited financial statement report for the fiscal year ending in 2020, TRLA's funding amounted to $43,111,221. LSC provided approximately 35 percent or $14,979,289 of the grantee's funding. TRLA accepted a COVID-19 Response Grant award from LSC in the amount of $983,982 and agreed to LSC's Special Grant Award Terms and Conditions and Basic Field Grant Terms and Conditions on April 21, 2020. LSC also awarded the grantee $24,950 for a 2020 Telework Capacity Building Grant. The grantee accepted the award on April 10, 2020.

OBJECTIVE

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

AUDIT FINDINGS

To accomplish the audit objective, the 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 disbursements, contracting, cost allocation, credit cards, general ledger and financial controls, client trust funds, derivative income, employee benefits, payroll, fixed assets, management reporting and budgeting, and COVID-19/Coronavirus Aid, Relief, and Economic Security (CARES) Act funds, for the audit period of January 1, 2020, through September 30, 2021 (Audit Period).

Internal controls were adequately designed and properly implemented in client trust funds, derivative income, payroll, fixed assets, and the oversight of COVID-19/CARES Act funds, as they relate to specific grantee operations and oversight. However, TRLA needs to strengthen its practices and formalize, in writing, internal controls over cost allocation, credit cards, contracting, general ledger and financial controls, management reporting and budgeting, employee benefits, and disbursements, as detailed below.

COST ALLOCATION

To determine whether the grantee's cost allocation formula and methodology were reasonable and adhered to LSC's *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* and regulations, the OIG reviewed TRLA's written policies and procedures and judgmentally selected four personnel and non-personnel expense categories, totaling $174,881, from two months within the Audit Period. We found that TRLA's Accounting Policies and Procedures Manual, which contains the grantee's written policies and procedures over cost allocation, was inadequate and does not adhere to LSC regulations. The OIG was unable to fully test the indirect costs allocation methodology.

Inadequate Cost Allocation Methodology

We reviewed the grantee's cost allocation methodology, documented in TRLA's Accounting Policies and Procedures Manual, and found there are two allocation methodologies documented, which conflict with one another. One methodology uses a ratio that does not adequately define and differentiate the terms in the numerator from those in the denominator. This renders the ratio ineffective. The other methodology does not use a fair or equitable basis to adhere to LSC regulations.

The grantee's cost allocation methodology states that indirect costs are allocated by utilizing an allocation method that incorporates total administration indirect costs[1] divided by total non-personnel costs[2] for all funds. From which, the percentage gathered is a proportionate rate of total indirect costs to total non-personnel costs. We find that the numerator and denominator in this instance could include the same expenses. For

[1] According to the TRLA Accounting Policies and Procedures Manual, total administration indirect costs are costs that benefit all programs and cannot be identified to a specific program.

[2] Non-personnel costs are those costs of the grantee that excludes salaries, wages and fringe benefits.

example, supplies could fall in the category of administrative indirect costs and non-personnel costs. Additionally, the grantee's cost allocation methodology stipulates that for travel costs, professional services, office expenses/supplies, equipment, insurance, telephone/communication and space expenses are allocated to the programs based on the ratio of each program's funding to total funds if the costs benefit more than one program. We find that ratios based on program funding to total funds and total indirect costs to total non-personnel costs, are not an equitable or fair allocation distribution base. These methods do not provide for a fair basis to determine the allocation of indirect costs to a particular grant for the proportion of that grant's usage/time/space at the grantee.

Additionally, TRLA's Accounting Policies and Procedures Manual does not include policies for allocating proportions of indirect costs across all funding sources, including where one or more funding source refuses to pay for indirect costs.

TRLA management stated they needed further guidance on updating their policy as recommended by LSC in an email during LSC's 2019 Disaster Grant Desk Review.

LSC regulation 45 CFR § 1630.5(f) states:

> The distribution base may be total direct costs, direct salaries and wages, attorney hours, numbers of cases, numbers of employees, or another base which results in an equitable distribution of indirect costs among funding sources.

Additionally, 45 CFR § 1630.5(g) states:

> Some funding sources may refuse to allow the allocation of certain indirect costs to an award. In such instances, a recipient may allocate a proportional share of another funding source's share of an indirect cost to LSC funds, provided that the activity associated with the indirect cost is permissible under the LSC Act, LSC appropriations statutes, and regulations.

Without an equitable basis for allocating indirect costs and policies for allocating proper proportions of indirect costs, where one or more funding source refuses to pay for indirect costs, LSC could incur a disproportionate share of the grantee's indirect expenses and may subject the grantee to questioned cost proceedings.

Methodology Not Testable

We found that the grantee's described cost allocation process does not conform to LSC regulations or to their own written policies and procedures. The written and described policy is not fair, consistent, or equitable to the individual cost centers and funds, as required by the *Fundamental Criteria*. From our initial sample, the OIG selected personnel expenses for an administrative staff person. We found that the grantee allocated the employee's wages directly to the programs for which work was done. We were able to test the formula/methodology for direct costs and found it reasonable. Due to the OIG predetermining the indirect cost allocation methodology was not in accordance with LSC regulations, we narrowed down our sample and tested one indirect expense category to determine whether the methodology was traceable for indirect costs. We reviewed the grantee’s telephone allocations for June 2021, totaling $44,695, and found that the grantee does not maintain documentation to substantiate the methodology used to determine an equitable basis for LSC allocations. According to documentation provided from the grantee on final allocations for this expense, the grantee allocated 61 percent to LSC. However, based on our test of tracing figures through the general ledger, we found that only 48 percent of the expense was allocated to LSC. Thus, the final allocation for this specific transaction was deemed unreliable because the general ledger does not tie into an actual apportionment of costs.

We could not determine or test the reasonableness or methodology used for the LSC allocation percentage. The grantee provided allocation worksheets for indirect costs for the Texas Access to Justice Foundation (TAJF) grant. This document lists full time equivalents for calculating percentages for TAJF; however, it did not contain the allocation formula for LSC.

TRLA management stated they do not have documented allocation formulas to determine LSC's proportion of indirect costs.

TRLA management stated they need further guidance on updating their policy and stated they do not have an LSC allocation spreadsheet because they have been making a journal entry to reclassify expenses from LSC to other fund sources.

The *Fundamental Criteria*, § 3-5.9(c) states that “common expenses shall be allocated among the sources on the basis agreed to by the applicable funding organizations, and in the absence of approved methods the allocation should be fair, consistent, and in an equitable manner to the individual cost centers, and funds. Further, the allocation formula should be adequately documented in writing with sufficient detail for the auditor, LSC, OIG, GAO, and others, to easily understand, follow, and test the formula.”

LSC is one of two of the grantee’s primary fundings sources. The failure to comply with funding source requirements can result in LSC not being allocated a fair, consistent, and equitable share of expenses and result in a reduction or loss of funding.

The OIG recommends the Executive Director ensures that:

Recommendation 1: the Accounting Policies and Procedures Manual is updated to reflect a methodology that (1) complies with 45 CFR § 1630.5(f), and (2) allocates common expenses in a fair, consistent, and equitable manner to individual cost centers, and funds.

Recommendation 2: staff and management have training and an understanding of the cost allocation methodology, especially those responsible for reviewing and approving journal entries.

CREDIT CARDS

The OIG reviewed the grantee's written policies and procedures, as well as practices in place, relating to credit cards to determine whether they are comparable to LSC's *Fundamental Criteria* and adhere to LSC regulations and guidelines. While TRLA's written policies are mostly in accordance with the *Fundamental Criteria*, we noted that they do not include prohibitions against cash advances and Automated Teller Machine (ATM) withdrawals and do not fully reflect the grantee's actual practices.

TRLA has five credit cards consisting of two from American Express, and one each from Home Depot, Office Depot, and Wal-Mart. The OIG judgmentally selected two months of statements from each credit card account for a total of eight statements. The OIG then judgmentally selected a sample of 21 credit card transactions, totaling $14,748. The sample represented approximately eight percent of the $177,616 total credit card transactions made during the Audit Period. As a result of our review, the OIG found that there were no credit card user agreements, credit card information seemed to be shared with unauthorized users, a lack of spending limits, missing supporting documentation, untimely approval of purchase orders, and an unallowable use of LSC funds.

Inadequate Written Policies

The TRLA Accounting Policies and Procedures Manual does not specify that cash advances and ATM withdrawals are not allowable uses of credit cards. Additionally, we found that, in practice, cardholders must sign receipts for purchases under $100; however, this requirement is not documented in TRLA's Accounting Policies and Procedures Manual. Credit cardholders do not sign receipts over $100 because those expenses are supported by a purchase order.

TRLA management acknowledged that the policies were not included in TRLA's Accounting Policies and Procedures Manual and stated that it will be updated to include the policies.

The 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*." Additionally, Appendix VII, Section G3.3, suggests that all cash advances and ATM withdrawals should be disallowed as a matter of program policy.

Implicit, unwritten delegations of authority and "understood" criteria often lead to misunderstandings and less-than-efficient operations.

Lack of Credit Card User Agreement Forms

TRLA does not utilize a Credit Card User Agreement Form for employees who are 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.

TRLA management stated that the credit card policy outlined in their Accounting Policies and Procedures Manual sets the rules and guidelines for employees who are issued a card; but that TRLA will develop an acknowledgment agreement for cardholders to sign.

The LSC Accounting Guide, Appendix VII, provides grantees guidelines for developing 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 Credit Card User Agreement Forms, TRLA employees may use the grantee's credit cards incorrectly or for unauthorized expenses. In addition, a signed Credit Card User Agreement Form demonstrates that authorized cardholders have read the credit card policies and procedures and are responsible for knowing and adhering to the policies.

Credit Card Information Shared with Non-Cardholders

Through testwork, the OIG found that authorized cardholders would sometimes share either the physical credit card or the credit card information, electronically, with a non-cardholder/unauthorized employee who needed to make a purchase. Because of this practice within the organization, we were unable to determine if transactions in our testwork were initiated by the authorized cardholders.

TRLA management stated that there are sometimes situations in which a non-cardholder needs to purchase an item with a company card. In these situations, staff are instructed to contact the cardholder (the Executive Director or Director of Administration) to approve the purchase. The confirmation of approval is sent to the accounting department as supporting documentation for when the credit card statement is processed for payment.

The *Fundamental Criteria,* § 3-5.1, states, "Financial controls shall be established to safeguard program resources."

Implicit, unwritten delegations of authority and justifications for purchases may lead to misunderstandings and less than efficient operations.

No Spending Limit

TRLA has one American Express account with two physical credit cards that are issued to the Executive Director and the Director of Administration. The credit cards are used for software, advertising, and other business-related expenses. However, we found that while the grantee's other credit cards have set spending limits, the two American Express credit cards do not have a set spending limit.

TRLA management stated that while there was no limit on the cards, the account is monitored; if charges exceed what is normally put on the card, it would be declined and investigated by American Express.

The Accounting Guide, Chapter 3-6: Fraud Prevention, states that credit card users should be limited, and spending limits should be set.

Without spending limits, there is an increased risk that a large amount of funds will not be recovered in the event theft or fraud occurs. Card limitations are a fraud prevention practice that ensures if a card is stolen, only a certain amount can be charged each day until the theft is reported.

Missing Purchase Orders

In performing testwork of 21 transactions, 11 transactions, totaling $9,377, were above the $100 threshold requiring a purchase order. The OIG found two transactions totaling $991 were missing required purchase orders. See Table 1.

Table 1 - Missing Purchase Orders

Transaction Classification	Total Transaction Amount	Total Amount Charged to LSC
Law Book	$155	$155
Law Book	$836	$0
Total	**$991**	**$155**

According to TRLA management, the cardholder did not request purchase orders for these two transactions. To get the payments out in a timely manner, the payments were issued without purchase orders.

TRLA's Accounting Policies and Procedures Manual, Section II.7(a), states, "A Purchase Requisition is filled out by the person in the office responsible for requisitions for all orders totaling over $100."

Failure to maintain adequate documentation for purchases may result in duplicate payments or payments at unacceptable prices or terms.

Untimely Purchase Order Approvals

Nine of the 11 transactions that required a purchase order, had one on file. However, eight of the nine purchase orders were approved after the dates of the corresponding transactions. Approvals of the purchase orders were up to three weeks after the transaction date. The eight transactions totaled $7,778, in which $5,254 was charged to LSC and included promotional items, media equipment, and office supplies. See Table 2.

Table 2 - Untimely Approvals of Purchase Orders

Transaction Classification	Transaction Amount	Transaction Amount Charged to LSC	Number of Days Approved After Transaction Date
Bandanas	$1,750	$0	3
Camera and accessories	$3,788	$3,788	13
Postcards and mugs	$1,138	$1,138	23
Cleaning products	$130	$130	6

Table 3 - Untimely Approvals of Purchase Orders Continued

Transaction Classification	Transaction Amount	Transaction Amount Charged to LSC	Number of Days Approved After Transaction Date
Medicine	$36	$36	11
Refrigerator	$434	$0	1
Kitchen supplies	$162	$162	2
Books	$340	$0	2
Total	**$7,778**	**$5,254**	**-**

TRLA management stated that they will emphasize to staff that a purchase order needs to be approved and issued before a purchase is made.

The Accounting Guide, § 3-5.4, states, "Approval should be required at an appropriate level of management before a commitment of resources is made."

If the purchase approval process is not followed, expenses may be incurred without the knowledge of appropriate management or at unacceptable prices or terms.

Unallowable LSC Transactions

Of the 21 transactions tested, the OIG identified one transaction, totaling $1,138, for gifts that was unallowable based on LSC regulations. This transaction was for promotional items including postcards and mugs, and the entire transaction amount was allocated to LSC.

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….

Additionally, LSC Program Letter 20-5 states:

> Historically, costs determined to be unallowable by LSC have included 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.

TRLA management stated that when the purchase order was issued, the expense was coded to the unrestricted fund; but when the payment was processed, it was incorrectly coded and charged to LSC.

On October 7, 2022, after the completion of audit testing, TRLA management provided supporting documentation reflecting that the LSC unallowable transaction totaling $1,138 had been reallocated to funding sources other than LSC. As such, the OIG will not question or refer the unallowable transaction to LSC Management.

Expenditures that are not reasonable and necessary under an LSC grant may be subject to questioned cost proceedings.

The OIG recommends the Executive Director ensures that:

Recommendation 3: updates are made to the TRLA Accounting Policies and Procedures Manual to specify cash advances and ATM withdrawals as unallowable uses of credit cards, and to require that credit cardholders sign receipts for purchases under $100 that do not require a purchase order.

Recommendation 4: a Credit Card User Agreement Form is developed for authorized credit cardholders and users to read, acknowledge, and sign. The agreement may include, but is not 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: only individuals formally authorized to use a credit card have access to the card information required to complete a purchase.

Recommendation 6: a reasonable spending limit is set on the American Express credit cards.

Recommendation 7: all expenditures over $100 are supported by purchase orders, in accordance with TRLA's policies and procedures.

Recommendation 8: a purchase order is completed and approved for all applicable costs prior to the initiation of the purchase.

Recommendation 9: LSC unallowable costs are charged to funding sources other than LSC.

CONTRACTING

The OIG reviewed TRLA's current contracting policies, procedures, and practices to determine whether the grantee had adequate internal controls over the contracting process. TRLA's written policies and procedures over contracting are mostly comparable to LSC's *Fundamental Criteria*, however the TRLA Accounting Policies and Procedures Manual has outdated and incorrect references to LSC regulations and lacks contracting policies regarding who may enter into a contract. Through interviews and testwork, we found that the grantee did not consistently follow its written policies and procedures or adhere to LSC regulations. As a result, several exceptions were found that pertain to the following: contract documentation, contract invoices, competitive bidding (or sole source justification), and contract amendments.

To test contracting internal controls, the OIG selected a judgmental sample of 22 vendors from a variety of services, such as building maintenance/repair, janitorial work, audit services, software services and programs, consultant services, telephone services, and internet services. During the Audit Period, TRLA expended $2,435,062 for these vendors.

Outdated Accounting Manual

The OIG reviewed TRLA's Accounting Policies and Procedures Manual for policies and procedures related to contracting and found that, although mostly comparable to the *Fundamental Criteria*, the TRLA Accounting Policies and Procedures Manual lacks the following requirements:

- The TRLA Accounting Policies and Procedures Manual references 45 CFR § 1630.5 and the Property Acquisition Management Manual (PAMM). However, the PAMM was replaced in 2017 with 45 CFR § 1631. Additionally, 45 CFR §1630.5 has been updated to 45 CFR §1630.6.
- The TRLA Accounting Policies and Procedures Manual does not state who is authorized to execute a contract.

TRLA management stated that the policies and procedures enumerated above will be included in the update of the Accounting Policies and Procedures Manual.

The 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*." Additionally, § 3-5.16, states, "The required approval level (including items that need to be approved by LSC) should be established for each contract type and dollar threshold, including when the Board of Directors should be notified and/or give approval."

Outdated or incorrect references in the grantee's Accounting Policies and Procedures Manual may cause the grantee to violate grant terms and conditions as well as LSC regulations and guidelines. Lacking policies on whom may enter into a contract or consulting agreement could result in fraud or waste and subject the grantee to questioned cost proceedings.

No Contract on File

The OIG judgmentally selected 22 vendors for review, and we noted that four vendors provided the grantee services but did not have an agreement or contract on file. These vendors were paid a total of $898,866 during the Audit Period. See Table 3.

Table 4 - Missing Contracts

Contract Type	Amount Expended During Audit Period
Software	$307,666
Building Maintenance	$27,195
Telephone	$9,921
Internet	$554,184
Total	**$898,966**

TRLA management stated that there were no contracts on file for these vendors because they provided small and odd jobs and they did not feel that it was required to enter a contract with the vendors.

The *Fundamental Criteria* § 3-5.16 states that the process used for each contract action should be fully documented, with the documentation maintained in a central file. In addition, it states that the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure the deliverables are completed.

Proper documentation helps ensure the grantee follows all established contracting procedures. Without a well-documented contract on file, including a detailed statement of work, it may be difficult to know if the grantee received the agreed-upon services for funds expended.

<u>Inadequate Documentation and Approval</u>

For the remaining 18 vendors that had a contract on file, 16 contracts, totaling $1,121,884, had at least one exception. See Table 4.

Table 5 - Contracts Exceptions

Sample #	Contract Type	Total Amount Expended	Missing Sole Source Justification or Competition	Approved After Start Date	Payment Increase Not Documented	Billed for Services Not in Contract	Approved by Non-management
1	Janitorial	$2,013					X
2	Software #1	$2,651	X				
3	Audit (no exceptions)	$75,124					
4	Janitorial #2	$3,345	X				X
5	Security	$4,777	X				
6	Landscaping	$6,700	X			X	
7	Consultant	$21,600	X				
8	Software #2	$26,838	X				
9	Consultant	$45,000	X	X			

Table 6 - Contracts Exceptions Continued

Sample #	Contract Type	Total Amount Expended	Missing Sole Source Justification or Competition	Approved After Start Date	Payment Increase Not Documented	Billed for Services Not in Contract	Approved by Non-management
10	Janitorial #3	$37,036	X		X		X
11	Technology	$601,700	X	X			
12	Janitorial #4	$41,796	X			X	
13	Consultant: Former Executive Director	$60,000		X			
14	Research	$76,000	X				
15	Consultant: For Director of Administration	$121,963	X	X			
16	Consultant	$57,500	X	X			
17	Building Maintenance (no exceptions)	$339,089					
18	Building Maintenance	$12,965	X				

During our review, we found five contracts or contract amendments that were signed by TRLA for approval after the effective start date. Two of these contracts were signed by TRLA for approval a month after the effective start date.

The OIG reviewed invoices for a janitorial contract from 2012, however the invoiced amount did not match the contractual amount. There was no amendment to the original contract documenting an increase. The OIG also found three contracts were billed for services not identified in the respective contracts. The additional costs, billed to landscaping, janitorial and security monitoring contracts, were for services not outlined in those contracts and the additional costs were not pre-approved by TRLA or negotiated through a contract amendment.

Of the 18 contracts on file, 17 were required to document competition or a sole source justification. Our review showed that, of those 17, 14 contracts were missing competitive bidding documentation or sole source justifications. Grantee management identified nine contracts as sole sourced due to the specificity of the service being provided or the service provider’s knowledge. However, the grantee did not document this justification.

TRLA management stated that contracts were signed untimely due to COVID-19; the grantee made oral agreements with vendors until they were able to sign the contracts. Although requested multiple times by the OIG, TRLA management did not provide the contract renewals or amendments to support payment increases and additional agreed upon services. TRLA management stated that there is a practice of obtaining competitive bids for contracts that require them, however, for the five such contracts the OIG reviewed, the requisite documentation was not maintained within the contract file.

The *Fundamental Criteria* § 3-5.16 states, "The process used for each contract action should be fully documented and the documentation maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file."

Contracting is a high-risk area for potential abuse and fraud. Proper documentation of contract competition or sole source justification helps ensure that approved contracts follow all established procedures and support the validity of awarding contracts. Without adequate internal verification, funds may be disbursed for services not received, in advance of receipt, or in the wrong amount. Proper documentation helps ensure that the grantee has a legal arrangement outlining established procedures for the goods/services to be received. Lacking policies on whom may enter into a contract or consulting agreement could result in fraud or waste and subject the grantee to questioned cost proceedings.

The OIG recommends the Executive Director ensures that:

Recommendation 10: updates to the TRLA Accounting Policies and Procedures Manual include correct the removal of references to the PAMM, and a policy specifying authorized individuals who may enter into a contract on behalf of the grantee.

Recommendation 11: contracts fully document an adequate statement of work, the agreed upon terms, costs, and payment terms, and are reviewed periodically to ensure that written terms are defined and current. All fields relevant to the contract agreement should be properly filled out before approval.

Recommendation 12: evidence of sole source justifications is documented and maintained in a central file.

Recommendation 13: competitive bidding documentation is obtained for vendors subject to the competitive bidding threshold and maintained in a central file.

Recommendation 14: documentation of contract amendments is obtained and maintained for all contracts.

Recommendation 15: contracts and/or contract amendments are approved prior to the effective start date of the agreement.

<u>Recommendation 16</u>: contracts are only entered into by authorized and appropriate individuals.

GENERAL LEDGER AND FINANCIAL CONTROLS

TRLA's written policies and procedures over general ledger and financial controls were found to be mostly comparable to the *Fundamental Criteria* outlined in the LSC <u>Accounting Guide</u>. However, we found that the grantee's accounting information system did not provide adequate user access rights restrictions. We also found that there was an unreliable reconciliation process, and bank accounts with outstanding checks over 90 days.

<u>Accounting Information System User Access Restrictions</u>

We reviewed the user access rights to the grantee's accounting information system (WINACT) to ensure proper segregation of duties exist and user access is granted specifically to users to complete their job-related duties. We found that the grantee's user access rights do not provide for adequate restrictions which results in an inadequate segregation of duties within the system. All users reviewed were current employees of the organization and included staff with managerial/director roles, human resources (HR), and accounting and information technology roles. One employee has programmer/administrator access to all modules and the Chief Financial Officer has level-10 access within the system, allowing access to security settings. The organization's remaining users have level-9 access, allowing them to review, add, modify, and delete information in multiple modules. With the exception of reviewing and running reports, level-9 provides access to modules that does not appear reflective of the reviewed users' roles and responsibilities. For example, Accounting and HR staff have level-9 access to the general ledger, accounts payable, and reconciliation modules. We also discovered the Payroll/Accounts Payable Manager and Accounting Grants Manager have access to the HR module.

According to TRLA management, the HR module is primarily used to run reports from information that is in the payroll module. The HR staff maintain two tabs: one which tracks employee information (such as job title, office location, law school name, etc.) and another which tracks an employee's work history within TRLA's organization. HR's access is limited to those two tabs in their system and to running reports.

TRLA management stated that each staff member is provided with level-9 access to facilitate performance of their assigned duties within the accounting system. However, the accounting information system is not designed to provide different access levels per module or provide partial access to modules. TRLA management stated that they are also cross training staff as well as working on converting to a new accounting system. During the conversion, staff need concurrent access to the old and new accounting systems to input information from the old system into the new system.

The Accounting Guide § 3-4.3 states that "accounting duties should be segregated to ensure that no individual simultaneously has both physical control and the record keeping responsibility for any asset, including, but not limited to, cash, client deposits, supplies and property. Duties must be segregated so that no individual can initiate, execute, and record a transaction without a second independent individual being involved in the process." The *Fundamental Criteria* § 3-5.1 states that communications of authority should be explicit and, to the extent possible, should be in writing.

Duties of individuals should be so divided as to minimize the possibility of collusion, perpetration of irregularities, and falsification of the accounts. Additionally, implicit, and unwritten delegations of authority and "understood" access to modules often lead to misunderstandings and less than efficient operations. Without adequate controls and definitions of responsibilities, projects or other transactions may be initiated that violate management intentions or the accounting system may be used for unauthorized purposes.

Unreliable Reconciliation Process

To determine whether the grantee has adequate internal controls in place over the bank reconciliation process, the OIG selected a non-statistical judgmental sample of two months, August 2020 and March 2021, of bank reconciliations from all open bank accounts (25 total bank accounts excluding client trust fund accounts) during the Audit Period, totaling 50 bank reconciliations.

We found that the reconciliation process is unreliable due to the following: (1) they are supported by general ledger reports whose run dates are inconsistent and are after the reconciliations were performed, (2) the grantee not properly dating when the reconciliations were actually performed by staff, and (3) reconciliations being performed prior to the bank statement period end date. Due to these inconsistencies, we could not determine when the reconciliations were actually performed.

During our review, we found that:

- In August 2020, one reconciliation was signed and dated a year prior to when the general ledger report was prepared. Reviewing the general ledger in conjunction with the bank statement is an essential step in ensuring that the reconciliations and balances are being reviewed as part of the reconciliation.
- In March 2021, eight reconciliations were signed and dated prior to the statement period end date; three of which were signed and dated the month prior to the statement period end date. Additionally, one reconciliation was mistakenly marked performed with a nonexistent date. The reconciliation was dated to have been performed April 31, 2021, even though April has only 30 days.

According to TRLA management, staff sometimes fails to print the general ledger report to support the reconciliation prior to submitting the corresponding reconciliation for review and approval.

TRLA management also stated reconciliations may have been performed before receipt of a bank statement. When a paper bank statement was not received, TRLA typically either contacted their bank representative to request that the statement be emailed to them or printed out the bank statement using an online portal.

According to TRLA management, there were instances where staff dated the reconciliations with the reconciliation's closing month, instead of the date they actually worked on the reconciliation. TRLA management stated that they would reiterate to staff the need to correctly date the reconciliations.

The Accounting Guide § 3-5.2(d) states that the reconciliation shall be reviewed and approved by a responsible individual. Such review shall be appropriately documented by signature and date. Additionally, bank statements should be reconciled to the general ledger. Reconciliation procedures shall be documented to ensure timeliness and accuracy.

Failure to follow the bank reconciliation approval process may result in management not performing proper oversight duties, which increases the likelihood that irregular disbursement and recording errors are not discovered on a timely basis.

Outstanding Checks

The OIG's review of bank reconciliations revealed a total of 33 outstanding checks, totaling $8,480, for August 2020 and 32 outstanding checks, totaling $19,755, for March 2021. The checks were outstanding more than 90 days. There were two undated outstanding checks for which we could not determine how long they had been outstanding. Additionally, we found that the grantee does not have a documented process to follow the Texas escheatment laws for outstanding checks.

According to TRLA management, a majority of the outstanding checks were issued to the Social Security Administration for garnishments. The grantee stated that they voided most of the outstanding checks before the closing of the fiscal year or whenever they could have access to their office files, due to limited access to the building during the COVID-19 pandemic. The two outstanding checks missing date information was due to: (1) a failure to manually enter the check date, and (2) missing copies of the check when performing the reconciliation.

The LSC Accounting Guide § 3-5.2(d) stipulates that reconciliation procedures shall be documented to ensure timeliness and accuracy. TRLA's Accounting Policies and Procedures Manual states that all outstanding checks are listed and checks outstanding more than 90 days are voided.

Delinquent or inaccurate reconciliation represents a lack of adequate control over financial transactions and increases the possibility that irregular transactions will be undetected. Proper reconciliation procedures will substantially increase the likelihood of irregular disbursements and recording errors being discovered on a timely basis.

The OIG recommends the Executive Director ensure that:

Recommendation 17: adequate segregation of duties is maintained within the accounting system and that user access is granted based on user responsibilities. In the event that certain restrictions are not feasible within the accounting system, user access rights within the system should be explicit and in writing, so individuals are aware of their access and purpose granted to modules within the accounting system.

Recommendation 18: general ledger reports, with relevant bank account balances, are utilized and attached to the bank statement prior to review.

Recommendation 19: bank reconciliations are signed and dated when the reconciliation was actually performed.

Recommendation 20: all appropriate information is entered on the reconciliation to ensure that outstanding checks can be investigated and resolved according to grantee policy of 90 days.

Recommendation 21: the Accounting Policies and Procedures Manual is updated to include a process to follow the Texas escheatment laws for outstanding checks.

MANAGEMENT REPORTING AND BUDGETING

The OIG reviewed TRLA's written policies and procedures in place over management reporting and budgeting. In particular, the OIG performed testwork to determine whether TRLA's monthly management reports adhere to the policies and procedures outlined in the grantee's Accounting Policies and Procedures Manual and if monthly reports contain relevant information for comparison totals against the budget. We judgmentally selected four monthly management reports for May 2020, October 2020, February 2021, and July 2021.

The OIG found that TRLA's written policies regarding management reporting mostly complied with the *Fundamental Criteria*; however, the budgeting policies and procedures were not documented in the grantee's Accounting Policies and Procedures Manual. In addition, there was no stipulation on the number of days after month-end by which management reports should be prepared. The OIG found that management reports are not reviewed or approved timely. The OIG also found that budgets lack vital information and were not formatted to coincide with the format of the management reports.

Accounting Manual Needs to be Updated

The OIG reviewed the TRLA Accounting Policies and Procedures Manual for policies and procedures addressing budgeting and found that there were none documented. During interviews and testwork, the OIG found that TRLA appears to have an adequate budgeting procedure in practice; however, their practices are not documented in their Accounting Policies and Procedures Manual. The OIG also found that the TRLA Accounting Policies and Procedures Manual does not stipulate the number of days after month-end by which management reports should be prepared.

TRLA management stated that the missing policies and procedures will be included in the update of the Accounting Policies and Procedures Manual.

The 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*.” Furthermore, Accounting Guide § 3-5.9(a) states that “the director should receive a monthly management report within a prescribed number of days after month-end.”

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to the staff.

Untimely Review and Approval of Management Reports

None of the four monthly management reports tested by the OIG had documented evidence of review and approval by TRLA management. TRLA’s Accounting Policies and Procedures Manual states that the CFO prepares and submits a monthly budget report to the Finance Committee of the Board of Directors and a quarterly report to the full Board of Directors. None of the four monthly management reports were documented as reviewed by the Finance Committee. Two of the four reviewed monthly management reports received full review and approval by the Board of Directors, as evidenced by discussions documented in the Board Meeting Minutes.

TRLA management stated that procedures will be implemented to document the review and approval of monthly management reports.

The Accounting Guide § 3-5.9(a) states that “the director should use the monthly management reports to ensure that all program resources are used efficiently and effectively.”

No documentation of the review and approval of monthly management reports makes it appear that no oversight is being performed. Irregularities, such as improper transactions or unanticipated costs, which may be revealed through the review of monthly management reports might otherwise go unnoticed and adversely impact management decisions.

Budget Assumptions Not Documented

The OIG performed a review of TRLA’s 2020 and 2021 annual budgets and found that the assumptions made to arrive at final values were not documented and that the budgets did not include variances from prior years. The budgets also did not include projected expenditures or an analysis of the year-to-date actual totals.

TRLA management stated:

> As part of the budgeting process, the previous year's budgets including actuals, previous year's audit, expenditures, staffing changes and vacancies, grant revenue, and non-personnel expenses are reviewed by TRLA management. All this information is drawn from various spreadsheets to create the final budget. The truncated budget is presented to the Board of Directors. All of the information used to create the budget is backed up in various spreadsheets.

The OIG requested, on multiple occasions, that the budget assumptions be provided for review, however, TRLA did not provide the documentation.

The Accounting Guide § 3-5.10 states that “the budget should be built from cost center/function and ‘rolled-up’ to create the total budget. Schedules should document the assumptions made in arriving at the final cost center/function budgets.”

Inadequate support for assumptions increases the possibility of errors. It also makes future analysis and improvement of projection techniques difficult.

The OIG recommends the Executive Director ensures that:

Recommendation 22: TRLA documents policies and procedures regarding the budgeting process in the TRLA Accounting Policies and Procedures Manual. The policies should adequately describe the processes and controls in sufficient detail and adhere to regulations and guidelines in LSC's Accounting Guide.

Recommendation 23: the TRLA Accounting Policies and Procedures Manual is updated to include a specific deadline or prescribed number of days after month-end for the preparation of monthly management reports.

Recommendation 24: monthly management reports are reviewed by the Executive Director prior to distribution to the Finance Committee every month and the Board of Directors quarterly. Approvals of each monthly management report should be documented when the monthly management reports are finalized and reviewed by all parties.

Recommendation 25: assumptions used to create the budget are documented.

EMPLOYEE BENEFITS

The OIG found that TRLA’s written policies and procedures for employee benefits complied with relevant criteria outlined in LSC’s *Fundamental Criteria* and adhered to

LSC regulations and guidelines. However, we noted several discrepancies between TRLA's Employee Handbook and Collective Bargaining Agreement.

The OIG tested internal controls and documentation related to benefits offered to employees to determine if they were adequately supported and if the benefits were equitably distributed according to applicable laws and regulations, as well as the grantee's written policies and procedures. The OIG judgmentally selected a sample of TRLA's employees receiving various loans and reimbursements from TRLA as outlined in the TRLA Employee Handbook. See Table 5.

Table 7 - Employee Benefits Tested

Benefit Type	Sample
Salary Advance	One-time salary advances for all employees in anticipation of possible payroll processing issues due to the COVID-19 pandemic.
Compensatory Time	Five employees that earned over the limit of 60 hours in a single pay period throughout the audit period.
Membership Fees	Five payments totaling $1,249.
Bar Review Fees	Six employees with reimbursements totaling $14,672.
Continuing Education	Four payments totaling $3,966.
Law School Loan Repayment Assistance Program (LRAP)	Five employees receiving this benefit.
Cell Phone Reimbursements	Eight employees with reimbursements totaling $325.

We did not find, if any, significant exceptions in our review of the salary advance, compensatory time, financial assistance for membership fees, bar review fees, continuing education, or cell phone reimbursement. However, during testwork, we found that annual LRAP documentation was not obtained from employees.

Discrepancies in Written Policies

TRLA's Collective Bargaining Agreement, effective August 16, 2021, contained policies that were not reflected in the grantee's most current Employee Handbook. These discrepancies included:

- an option for new attorneys to participate in one of the two LRAPs offered by TRLA;
- continuing education reimbursements were raised from $750 to $1,500; and,
- continuing education reimbursements are submitted to the Director of Administration for approval instead of the CFO.

TRLA management stated that the grantee is currently in the process of updating the TRLA Employee Handbook to reflect the updated policies outlined in the Collective Bargaining Agreement.

The Accounting Guide § 3-4.5 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*."

Inconsistent written policies could lead to confusion and less-than-efficient operations.

Annual LRAP Documentation Not Obtained

TRLA's Employee Handbook stipulates those employees that receive LRAP funding must furnish an itemized annual loan disclosure or financial statement from the lending institution to the TRLA CFO by January 31 of each year on each loan that is subject to loan repayment assistance. However, for the five employees reviewed in our sample, we were unable to verify whether itemized annual loan disclosures or financial statements were provided by the LRAP participants in accordance with TRLA's policies and procedures.

The OIG made multiple requests to TRLA to provide the appropriate LRAP documentation, however, TRLA management did not respond to our requests for documentation.

TRLA's Employee Handbook, Section D.5(5), states:

> An employee who receives TRLA LRAP funding must furnish an itemized annual loan disclosure or financial statement from the lending institution to the Chief Financial Officer by January 31 of each year on each loan that is subject to loan repayment assistance. Loan repayment assistance will terminate if such paperwork is not received by the due date and will not re-start until received.

Without submission of required annual documentation, employees who are no longer eligible may still continue receiving LRAP benefits. The OIG recommends the Executive Director ensures that:

Recommendation 26: TRLA's Employee Handbook is updated to reflect the current policies described in the Collective Bargaining Agreement.

Recommendation 27: employees receiving LRAP benefits submit all required documentation in accordance with TRLA's policies and procedures.

DISBURSEMENTS

The OIG found that the grantee's written policies and procedures relating to disbursements were comparable to the *Fundamental Criteria*. We also did not find any exceptions as a result of the testwork performed, in which we judgmentally selected a sample of 106 disbursement transactions, totaling $1,534,442, to review. This sample represented approximately five percent of the $30,394,810 disbursed for expenses other than payroll.

However, during interviews with TRLA staff, we found there to be lack of segregation of duties in various areas.

Lack of Segregation of Duties

Through interviews, the OIG learned that check signers use an electronic signature, created, and stored within the grantee's accounting system, when signing checks. Also, through interviews, we found that the CFO has access to the check stock (storage of blank checks) and could print signatures on checks using the grantee's accounting system.

Additionally, we noted a lack of segregation of duties over the master vendor list. The master vendor list is a module maintained within the grantee's in-house accounting system, WINACT. TRLA's Accountant is responsible for preparing and processing disbursements and has full access, including the ability to add, delete, and edit vendors, within the master vendor list.

TRLA management stated that in the event someone else was not available, the CFO would be able to access the check stock, and someone else would be responsible for signing those checks. TRLA management also stated that employees are given a certain level of access within their accounting system in order to carry out their duties. However, the accounting information system does not allow for different access levels to different modules. Therefore, the same access is granted to all modules for all individuals with access.

TRLA's Accounting Policies and Procedures Manual states that the Accountant accompanied by the CFO, using the check signer software program, prints signatures on the checks.

The Accounting Guide § 3-4.3, states:

> Accounting duties should be segregated to ensure that no individual simultaneously has both physical control and the record keeping responsibility for any asset, including, but not limited to, cash, client deposits, supplies, and property. Duties must be segregated so that no individual can initiate, execute, and record a transaction without a second independent individual being involved in the process.

Inadequate segregation of duties can result in failure to prevent and detect error, fraud, theft, and collusion. Appropriately segregating duties based on an employee's job function and responsibilities can minimize the occurrence of errors or fraud by ensuring that no employee has the ability to both perpetrate and conceal errors or fraud in the normal course of their duties.

The OIG recommends the Executive Director ensures that:

Recommendation 28: adequate segregation of duties is established to ensure that employees with the ability to sign checks do not have access to the check stock.

Recommendation 29: the accounting system has controls in place to limit an individual's access to modules based on their job duties.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

TRLA provided their responses to the OIG's Draft Report via email on October 7, 2022. TRLA management agreed with 24 recommendations, partially agreed with three recommendations, and disagreed with two recommendations. TRLA's responses are included in their entirety in Appendix III.

The OIG considers TRLA's comments and actions provided for Recommendations 4, 7, 8, 9, 11, 12, 15, 19, and 27 as fully responsive and closed.

The OIG considers TRLA's comments and proposed actions to Recommendations 2, 3, 5, 6, 10, 13, 14, 18, 20, 21, 22, 23, 24, and 26 as responsive. Although the grantee disagreed with Recommendation 29, we also consider their comments and proposed actions as responsive. These 15 recommendations will remain open until the OIG receives the following items:

- Recommendation 2: evidence that the Accounting Managers attended a training on the revised cost allocation methodology.
- Recommendations 3 and 5: evidence that the board approved the TRLA Accounting Policies and Procedures Manual detailing the updated credit card policies.
- Recommendation 6: documentation from the bank evidencing that a spending limit has been established for the American Express credit card.
- Recommendations 10, 13, and 14: evidence that the board approved the TRLA Accounting Policies and Procedures Manual detailing the updated Procurement and Contract Policy.
- Recommendation 18: evidence that the board approved the TRLA Accounting Policies and Procedures Manual detailing the bank reconciliation process.
- Recommendation 20: evidence that the training on bank reconciliation procedures was conducted. This could include the agenda from the training or meeting invites to the training.
- Recommendation 21: evidence that the board approved the TRLA Accounting Policies and Procedures Manual detailing the bank reconciliation process and the handling of outstanding checks.
- Recommendation 22: evidence that the board approved the TRLA Accounting Policies and Procedures Manual detailing policies and procedures for budgeting.
- Recommendation 23: evidence that the board approved the TRLA Accounting Policies and Procedures Manual detailing the management reporting procedural updates.
- Recommendation 24: an example of a monthly management report that details dates of review.
- Recommendation 26: the updated and board approved TRLA Employee Handbook detailing the current policies described in the Collective Bargaining Agreement.
- Recommendation 29: evidence that their new accounting system has controls in place within the system to limit an individual's access to modules based on their job duties.

The OIG considers TRLA's comments and proposed actions to Recommendations 1, 16, 17, and 25 as partially responsive. These recommendations will remain open until the OIG is provided a corrective action plan that specifically addresses the recommendations.

- Recommendation 1 will remain open until the OIG is provided with a copy of the revised cost allocation methodology that complies with 45 CFR § 1630.5(f), and allocates common expenses in a fair, consistent, and equitable manner to individual cost centers, and funds.
- Recommendation 16 will remain open until the OIG receives evidence that the board approved the TRLA Accounting Policies and Procedures Manual detailing the updated Procurement and Contract Policy.
- Recommendation 17 will remain open until the OIG receives evidence that their new accounting system will ensure that adequate segregation of duties is established within the system and that user access is granted based on user responsibility.
- Recommendation 25 will remain open until the OIG is provided a corrective action plan to ensure that assumptions will be documented within the budget spreadsheet. The grantee response states that they will continue to do processes that were not found to have been done during the audit.

The OIG also considers TRLA's comment to Recommendation 28 as partially responsive. TRLA management disagreed with our recommendation and provided a response that suggests the grantee will likely continue their process as is. This recommendation will remain open until the grantee provides a corrective action plan that mitigates the risk identified.

Recommendation 28: The grantee disagreed with our recommendation and provided an inadequate action plan to address segregation of duties over access to check stock for staff who also have the ability to sign checks. As described in their response, the CFO would still have access to the check stock (storage of blank checks) and be able to print signatures on checks using the grantee's accounting system, which we also identified had user access rights that were not adequately segregated.

APPENDIX I – SCOPE AND METHODOLOGY

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

- Disbursements
- Contracting
- Cost Allocation
- Credit Cards
- General Ledger and Financial Controls
- Client Trust Funds
- Derivative Income
- Employee Benefits
- Payroll
- Fixed Assets
- Management Reporting and Budgeting
- COVID-19/CARES Act Funds

The OIG evaluated select financial and administrative areas and tested the related controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations during the period of January 1, 2020, through September 30, 2021.

To obtain an understanding of the internal control framework and TRLA's 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 TRLA's 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 as 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.

Non-statistical sampling methodology was used to select samples for testing. The OIG determined that non-statistical methodologies would be appropriate based on the audit objective and scope as well as the nature of the grantee, and the audit timeline. Since non-statistical sampling was used, 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 evaluate and test internal controls over general ledger and financial controls, the OIG used a non-statistical sampling methodology to review bank reconciliations from the grantee’s 25 bank accounts (excluding client trust funds accounts). Two months were randomly selected from the audit period of 21 months. The months selected were August 2020 and March 2021 and 50 reconciliations were requested for review.

To test the appropriateness of expenditures and the existence of adequate supporting documentation, the OIG reviewed disbursements made by TRLA for transactions other than credit cards and payroll. We judgmentally selected a sample of 106 disbursement transactions, totaling $1,534,442. The transactions selected included LSC unallowable transactions, memberships, dues, employee reimbursements, office supplies, and atypical vendors. The sample represented approximately five percent of the grantee's 2020 and 2021 check register, totaling $30,394,810, other than credit cards and payroll during the period January 1, 2020, to September 30, 2021. 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, we reviewed 21 transactions, totaling $14,748 from eight credit card statements. The sample represented eight percent of the transactions totaling $177,616. All credit card statements were judgmentally selected to identify transaction amounts that were large, unallowable, or initiated by unauthorized users. 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, contracting, client trust funds, 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 determine whether the grantee has adequate internal controls over payroll, we judgmentally selected 22 out of 490 employees listed on the staff roster. The employees selected were based on risk, position, and background information obtained through interviews. From our audit scope of 42 pay periods, we judgmentally sampled two pay periods, October 23, 2020, and June 18, 2021, and requested to review 44 payroll transactions. To assess whether payroll processes adhere to LSC regulations and guidelines, we reviewed the content and accuracy of payroll registers, the approvals by employees and supervisors of timesheets, and the agreements of salary payments to time and attendance records.

To evaluate and test internal controls over management reporting and budgeting, we selected four months out of a universe of 21 months in our audit scope to review monthly management reports. The months sampled included May 2020, October 2020, February 2021, and July 2021. The 2020-2021 annual budget that was prepared in 2020 was also sampled to be reviewed out of two annual budgets prepared by the grantee during the audit scope. We reviewed prepared report packages and Board of Director meeting minutes to ensure that LARC is adhering to the policies and procedures outlined in their Accounting Policies and Procedures Manual and described by staff in the interviews.

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.

To evaluate the adequacy of internal controls over LSC COVID-19/CARES Act funding, the OIG interviewed appropriate program personnel and reviewed whether the grantee’s documented policies and procedures complied with LSC regulations and guidelines. We reviewed five quarterly reports for the COVID-19 Response Grant to ensure all reports were submitted timely to LSC and documented information including the summarized results. We reviewed the nature of the expenditures allocated to the COVID-19 Supplemental Grant Funds and the expenses allocated to the Telework Capacity Building Grant.

Fieldwork was conducted remotely due to safety concerns related to the COVID-19 pandemic. Fieldwork began on October 25, 2021. 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 January 1, 2020, to September 30, 2021.

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 control 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

TABLE 6 – Internal Control Principles Significant/Material to the Audit Objective[3]

INTERNAL CONTROL COMPONENT
PRINCIPLE

NAME	OVERVIEW	NUMBER	DESCRIPTION
CONTROL ENVIRONMENT	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
CONTROL ACTIVITIES	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 11 12	Management Should Design Control Activities to Achieve Objectives and Respond to Risks Management Should Design the Entity's Information System and Related Control Activities to Achieve Objectives and Respond to Risks Management Should Implement Control Activities Through Policies

[3] 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
INFORMATION AND COMMUNICATION	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 14 15	Management Should Use Quality Information to Achieve the Entity's Objectives Management Should Internally Communicate the Necessary Quality Information to Achieve the Entity's Objectives Management Should Internally Communicate the Necessary Quality Information to Achieve the Entity's Objectives

APPENDIX III – GRANTEE MANAGEMENT COMMENTS

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Recommendation Tracking

Grantee Name: Texas RioGrande Legal Aid, Inc.

RNO: 744100

The Office of Inspector General makes recommendations for actions or changes that will correct problems, better safeguard the integrity of funds, and improve procedures or otherwise increase efficiency or effectiveness. We believe grantee management understands its operations best and is in a position to utilize more effective methods to respond to our recommendations. We encourage these methods when responding to recommendations.

Instructions: Please complete this form with your comments and select whether you agree, partially agree, or disagree with the recommendations outlined in the draft report. Along with this form, submit a letter outlining your responses to our audit report.

Recommendations	Response	Comments
Recommendation 1	Agree ☒ Partially Agree ☐ Disagree ☐	TRLA is working on revising the cost allocation methodology to compile with 45 CFR 1630(f). We are transitioning to a new accounting system and will the process through the new system.
Recommendation 2	Agree ☒ Partially Agree ☐ Disagree ☐	Accounting Managers will be trained on the revised cost allocation methodology and support staff will be trained on the proper steps to take when allocating cost.

Recommendation 3	Agree ☒ Partially Agree ☐ Disagree ☐	The credit card policy has been updated and attached.
Recommendation 4	Agree ☒ Partially Agree ☐ Disagree ☐	Attached please find the Credit Card User Agreement Form.
Recommendation 5	Agree ☐ Partially Agree ☒ Disagree ☐	The credit card policy has been revised and attached.
Recommendation 6	Agree ☒ Partially Agree ☐ Disagree ☐	A limit has been sent for Executive staff that have been issued an American Express credit card.
Recommendation 7	Agree ☐ Partially Agree ☒ Disagree ☐	The credit card policy has been revised and attached.
Recommendation 8	Agree ☒ Partially Agree ☐ Disagree ☐	Reminders will be send to staff that prior to purchasing supplies or equipment a purchase order is needed prior to the purchase.
Recommendation 9	Agree ☒ Partially Agree ☐ Disagree ☐	Attached is the journal entry that will be entered into the accounting system.
Recommendation 10	Agree ☒ Partially Agree ☐ Disagree ☐	The procurement and contract policy has been revised and attached.
Recommendation 11	Agree ☒ Partially Agree ☐ Disagree ☐	The procurement and contract policy has been revised and attached.

Recommendation 12	Agree ☒ Partially Agree ☐ Disagree ☐	Attached is the Sole Source Request For
Recommendation 13	Agree ☒ Partially Agree ☐ Disagree ☐	The procurement and contracting policy has been revised and attached.
Recommendation 14	Agree ☒ Partially Agree ☐ Disagree ☐	The procurement and contracting policy has been revised and attached.
Recommendation 15	Agree ☒ Partially Agree ☐ Disagree ☐	The purchasing department will work with staff on getting contracts and contract amendments executed prior to the effective start date of the agreement.
Recommendation 16	Agree ☒ Partially Agree ☐ Disagree ☐	The Executive Director and the Director of Administration or their designee are authorized to enter into a contract.
Recommendation 17	Agree ☐ Partially Agree ☒ Disagree ☐	Each person is assigned certain duties within the accounting system. As TRLA transitions to Abila MIP, all TRLA user access will be based on user responsibilities.
Recommendation 18	Agree ☒ Partially Agree ☐ Disagree ☐	The bank reconciliation procedures have been updated and state that general ledger reports are utilized and attached to the bank statements prior to review. Attached are the revised procedures.
Recommendation 19	Agree ☒ Partially Agree ☐ Disagree ☐	Training has been conducted with the bank reconciliation accountant and it has been reinforced that bank reconciliations are signed and dated when the reconciliation is performed.
Recommendation 20	Agree ☒ Partially Agree ☐ Disagree ☐	Training has been conducted with the bank reconciliation accountant.

Recommendation 21	Agree ☒ Partially Agree ☐ Disagree ☐	The Texas Enchantment process has been added to the bank reconciliation process.
Recommendation 22	Agree ☒ Partially Agree ☐ Disagree ☐	Attached is the budgeting process.
Recommendation 23	Agree ☒ Partially Agree ☐ Disagree ☐	The budgeting and monthly management reports has been updated to include the date the reports are due to management.
Recommendation 24	Agree ☒ Partially Agree ☐ Disagree ☐	The approval of the monthly reports will documented on a spreadsheet.
Recommendation 25	Agree ☒ Partially Agree ☐ Disagree ☐	Budget assumptions will continue to be documented on the budget work papers.
Recommendation 26	Agree ☒ Partially Agree ☐ Disagree ☐	The employee handbook is in the process of being updated with all the software changes and policy changes.
Recommendation 27	Agree ☒ Partially Agree ☐ Disagree ☐	A third party is now administrating LRAP benefits for employees and payments are directly paid to the loan provider.
Recommendation 28	Agree ☐ Partially Agree ☐ Disagree ☒	Adequate segregation of duties are established.
Recommendation 29	Agree ☐ Partially Agree ☐ Disagree ☒	Staff are assigned duties within the accounting system. TRLA has procedures in place and checks in balance in which on person can not preform a task out on their own.

Name and Title: Alma Rodriguez / Chief Financial Officer ______________

Signature: Alma Rodriguez