

LEGAL SERVICES CORPORATION



OFFICE OF INSPECTOR GENERAL

Legal Aid Foundation of Los Angeles

RNO 805080

Final Report on Selected Internal Controls

Report No. AU 24-02

January 2024

www.oig.lsc.gov



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January 11, 2024

Silvia Argueta
Executive Director
Legal Aid Foundation of Los Angeles
1550 W. 8th Street
Los Angeles, CA 90017

Dear Ms. Argueta,

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit of selected internal controls at Legal Aid Foundation of Los Angeles (LAFLA). Appendix III of the report includes LAFLA's response to the draft in its entirety.

We consider the proposed actions to Recommendations 1-3, 5, 7-9, 11, 13-24, and 26-35 as responsive. However, these 30 recommendations will remain open until the OIG is provided with evidence of strengthened procedures and policies.

The OIG considers the comments to Recommendations 6, 10, 12, and 25 as partially responsive. However, these four recommendations will remain open until the OIG is provided documentation of the items included on pages 58-72 of the final report, "OIG Evaluation of Grantee Management Comments."

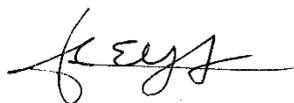
The OIG considers LAFLA's comments to Recommendation 4 as unresponsive. LAFLA disagreed with the recommendation and provided a response that suggests they will not proceed with the recommended action. This recommendation will be referred to LSC Management for resolution.

Additionally, the OIG is referring to LSC Management for further review and action questioned costs related to Law School Loan Reimbursement (LSRL) transactions totaling \$217,461. We were not able to reconcile the total loan payments on the general ledger to the recordkeeping for the loan reimbursements; and were not able to confirm whether the amount allocated to LSC was accurate. We consider the LSLRs charged to LSC unreasonable and unnecessary pursuant to LSC regulation 45 C.F.R. § 1630.5(a), subsections (2), (6), and (8).

Please send us your response to close out the 34 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 expect to receive your submission by July 11, 2024.

If you have any questions, please contact Roxanne Caruso, Assistant Inspector General for Audit, at (202) 295-1582. We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,



Thomas E. Yatsco
LSC Inspector General

Enclosure

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Executive Summary

Legal Aid Foundation of Los Angeles (LAFLA) Report on Selected Internal Controls

Objective

The objective was to assess the adequacy of select internal controls at LAFLA and 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. To carry out the objective, we evaluated select internal controls in specific financial and operational areas to ensure that costs were adequately supported and allowed under the LSC Act, and other LSC regulations and guidelines. The audit scope period was January 1, 2020, through February 28, 2022.

What We Found

We determined that LAFLA needs to strengthen its practices or formalize internal controls in writing for employee benefits, credit cards, fixed assets (including property and equipment), contracting, general ledger and financial controls, disbursements, client trust funds, and payroll. The most significant internal control weaknesses during the audit were identified in the area of employee benefits. However, LAFLA adequately designed and properly implemented internal controls for grantee operations and oversight in the areas of cost allocation, management reporting and budgeting, derivative income and use of the COVID-19 Response Grant and Telework Capacity Grant as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds.

The findings resulted from staff turnover in the finance department, inadequate recordkeeping, inadequate documentation of review and approvals, policies and procedures that were unimplemented, unfinalized, and noncompliant with LSC laws, regulations and guidance, and the sudden changes to grantee operations due to the COVID-19 pandemic. Also, as part of our efforts to determine how LSC funds were used, we identified \$217,461 in questioned costs resulting from a lack of adequate supporting documentation and approvals, inaccurate law school loan reimbursement (LSLR) payments, ineligible employee reimbursements, and discrepancies over the LSLR accounting records.

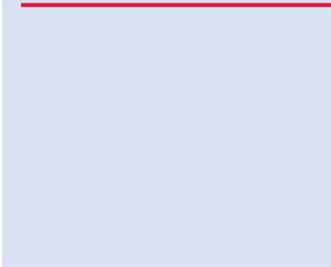
What We Recommend

This report includes 35 recommendations, primarily addressing the need for grantee management to ensure adequate documentation of approvals and recordkeeping. Recommendations also include updating the grantee's policies to conform with the LSC Guidance.

Management's Response

LAFLA management agreed with 31 recommendations, partially agreed with two recommendations, and disagreed with two recommendations.

We considered LAFLA's proposed actions for 30 recommendations as responsive. The proposed actions for four recommendations were considered partially responsive, and we considered LAFLA's comments to one recommendation as unresponsive. The 34 recommendations, whose



comments were responsive and partially responsive, will remain open until LAFLA notifies us in writing that all findings have been addressed and provides us with appropriate supporting documentation.

The OIG is referring one recommendation, which the grantee disagreed with, and questioned costs totaling \$217,461 to LSC Management for review and action.

Table of Contents

Introduction.....	3
Background	3
Objective	4
Audit Findings.....	4
Employee Benefits	5
Recommendation 1	7
Recommendation 2.....	7
Recommendation 3.....	9
Recommendation 4.....	9
Recommendation 5.....	10
Recommendation 6.....	11
Recommendation 7.....	11
Recommendation 8.....	14
Recommendation 9.....	14
Recommendation 10.....	14
Recommendation 11.....	16
Recommendation 12.....	16
Recommendation 13.....	17
Credit Cards	18
Recommendation 14.....	19
Recommendation 15.....	20
Recommendation 16.....	21
Recommendation 17.....	22
Recommendation 18.....	22
Fixed Assets	24
Recommendation 19.....	25

Recommendation 20.....	26
Recommendation 21.....	27
Recommendation 22.....	28
Contracting	29
Recommendation 23.....	34
Recommendation 24.....	34
Recommendation 25.....	36
Recommendation 26.....	36
Recommendation 27.....	37
General Ledger and Financial Controls.....	38
Recommendation 28.....	39
Recommendation 29.....	40
Recommendation 30.....	40
Disbursements.....	41
Recommendation 31.....	41
Recommendation 32.....	42
Recommendation 33.....	43
Client Trust Funds.....	44
Recommendation 34.....	45
Payroll.....	46
Recommendation 35.....	47
OIG Evaluation of Grantee Management Comments.....	48
Appendix I: Scope & Methodology.....	52
Appendix II: Assessment of Internal Control Components and Principles.....	56
Appendix III: Grantee Management Comments.....	58

Introduction

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at the Legal Aid Foundation of Los Angeles (LAFLA or grantee or recipient) for grantee operations and oversight. We conducted audit work remotely due to coronavirus disease 2019 (COVID-19) pandemic safety concerns.

The Accounting Guide¹ for LSC Recipients (2010 Edition) (LSC Accounting Guide or Accounting Guide), Chapter 3, requires LSC grantees 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 (BOD) 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.

The LSC Accounting Guide further requires that each grantee relies on its own system of internal controls and procedures to prevent fraud and meet management's financial information needs.

Background

LAFLA is a nonprofit law firm that aims to protect and advance the rights of the most underserved. Their mission is to achieve equal justice for impoverished residents throughout Greater Los Angeles.

According to their audited financial statement for the fiscal year ending December 31, 2021, the grantee had total funding in the amount of \$40,848,673 of which approximately 19% or \$7,761,909 was from LSC. In 2020, in addition to an LSC Basic Field Grant of \$6,460,385, the grantee

¹ Effective January 1, 2023, the LSC Financial Guide has superseded the LSC Accounting Guide. Because the audit scope was from January 1, 2020, to February 28, 2022, we referred to the Accounting Guide as the criteria for the audit findings. However, we ensured that all recommendations made in this report are in accordance with the new LSC Financial Guide.

accepted a \$830,707 COVID-19 Response Grant and a \$25,000 LSC Telework Capacity Building Grant as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Objective

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

To accomplish the audit objective, we evaluated select internal controls in specific financial and operational areas as well as LAFLA's policies and procedures, including manuals, guidelines, memoranda, and directives that document current grantee practices. We reviewed and tested internal controls for disbursements, contracting, cost allocation, credit cards, general ledger and financial controls, client trust funds, derivative income, employee benefits, payroll, fixed assets (including property and equipment), management reporting and budgeting, and CARES Act funds. The audit scope period was January 1, 2020, through February 28, 2022.

Audit Findings

We determined that LAFLA adequately designed and properly implemented internal controls for grantee operations and oversight in the areas of derivative income, management reporting and budgeting, cost allocation, and grantee use of CARES Act funds. However, grantee management needs to strengthen its practices or formalize, in writing, internal controls over employee benefits, credit cards, fixed assets (including property and equipment), contracting, general ledger and financial controls, disbursements, client trust funds, and payroll.

Employee Benefits

The OIG reviewed the grantee's written policies and procedures as well as practices in place during the audit scope period to determine whether processes over employee benefits are comparable to LSC's *Fundamental Criteria* of an Accounting and Financial Reporting System (Fundamental Criteria) contained in the Accounting Guide and adhere to LSC regulations and guidelines.

We reviewed LAFLA's law school loan reimbursement (LSLR) program for all 50 employees receiving those reimbursements, totaling \$217,461. We also reviewed all the salary advance transactions and related documents from three employees with zero interest vacation loans² (Vacation Loans), totaling \$9,162.

In addition, we reviewed LAFLA's on-boarding process and COVID-19 pandemic related stipends. For these items, we judgmentally selected the following:

- Employee files for the two most recently hired employees.
- COVID-19 pandemic related stipends, totaling \$155,964, issued to 286 employees, including 150 non-attorney and non-management employees who received cell phone and/or internet stipends totaling \$6,000.

As a result of our review, we found that LAFLA distributes benefits equitably among all employees by providing the new hire orientation checklist, Employee Handbook, Personnel Manual, and the Collective Bargaining Agreement. However, we noted weak processes and procedures over LSLR, Vacation Loans, and cell phone stipends.

Law School Loan Reimbursements (LSLR)

LAFLA offers LSLR to offset the increasing costs of law school loans that could prevent lawyers from pursuing careers in legal aid. We reviewed documentation and law school reimbursement transactions for 50 employees receiving LSLR within our audit scope period, totaling \$217,461. As a result of our review, we noted: inadequate documentation and approvals, LSLR overpayments, ineligible employee reimbursement, and an unreconcilable general ledger.

² LAFLA's Vacation Loan is considered a salary advance secured with employees' accrued vacation time. The zero-interest vacation loan is an interest-free loan secured by accrued vacation time. It was established to help LAFLA employees through financial difficulties.

Not All LSLR Approvals Were Adequately Documented

In our review of LAFLA's application and approval process, we learned that LAFLA employees eligible for LSLR must complete an Application, Promissory Note, and Certification form (Application), and submit reliable documentation of all loans and monthly payment amounts from the loan servicer(s) (Supporting Documentation). However, we found that the Application does not include a section for an authorized approver's signature and date to document the review and approval. In addition, the Collective Bargaining Agreement (CBA) does not clearly identify the personnel responsible for approving LSLR Applications.

In reviewing the Supporting Documentation on file, we found that there was none for the former Director of Human Resources (HR) and a Managing Attorney. In addition, the Application was incomplete (the Certification was left blank) for two other attorneys.

LAFLA's HR personnel explained that the CBA serves as a blanket approval of the Application and Supporting Documentation for all employees subject to the CBA. As such there is no need or requirement for further approval. LAFLA HR personnel added that the CBA does not require an approval signature, only a verification of the existing current loan statements.

LAFLA management were unable to locate the Applications and Supporting Documentation that were not on file. However, they explained that HR verifies the school loan information.

The inadequate approvals and documentation over LSLR do not conform with LAFLA's requirements per the CBA as stipulated below:

LAFLA's CBA § 7.7.5, Procedures, states:

The employee must submit a completed and signed Application and Certification and reliable documentation from the loan servicer(s) which demonstrates the existence of all loans and monthly payment amounts to the Human Resources Department.

Additionally, LAFLA's CBA § 7.7.5.1, Procedures, states:

The documentation of loan repayment must be submitted to the Accounting Department on a quarterly basis. Receipts, canceled checks, and loan service statements or payment histories are examples of reliable documentation. Photocopies or online versions of such documents are acceptable. LAFLA reimbursement will be on a quarterly basis. If an eligible employee submits a written request to the Human Resources Department establishing financial hardship, reimbursement may be made on a monthly basis.

The LSC Accounting Guide, § 3-4(4), states: “Recipients must establish independent checks and proofs consisting of regular internal verification of the recording of transactions and on the preparation of financial reports.”

The absence of detailed procedures for documenting independent checks and proofs may result in unauthorized, unsupported, or incorrect law school reimbursements. Without proper documentation, the grantee may not demonstrate that employees adhere to policies and procedures.

We recommend that the Executive Director:

Recommendation 1: Update the relevant manuals to establish an approval process requiring:

- (1) specific pertinent documentation prior to approving LSLRs and
- (2) a signature and date from the personnel assigned to review and approve the LSLR Applications.

Recommendation 2: Implement enhanced processes to ensure that the LSLR files are complete, including but not limited to the Application and Supporting Documentation, for all employees currently receiving reimbursements.

Employees Received Over \$23,000 in LSLR Overpayments

We reviewed LAFLA’s accounting records to verify accuracy of LSLRs paid to the aforementioned 50 employees. We found that not all reimbursements were made in accordance with the grantee’s policy. For example, one employee had a required monthly loan payment of \$183. This employee should have been reimbursed the amount of \$183 per LAFLA’s policy, as stipulated in the Application. However, the employee received a monthly reimbursement of \$500 because the employee made an actual monthly payment of \$500. This employee was overpaid in 2020, 2021, and 2022.

We noted a total of \$23,737 of overpayments to 17 employees; out of which, five were repeatedly overpaid from January 1, 2020, to February 28, 2022.³ See Figure 1.

Figure 1: Total Overpayments of Law School Reimbursements

Year	Total Employees Overpaid	Total Employees Repeatedly Overpaid	Total Overpayment Amount
2020	11	Unknown from 2019	\$8,926
2021	10	5 from 2020	\$13,379
2022	4	3 from 2021	\$1,432
Overall Total			\$23,737

³ The \$23,737 of LSLR overpayments are included in the Questioned Costs of LSLR totaling \$217,461.

Also, the policy outlined in CBA § 7.7.4, and the Application are not consistent. The CBA states that the amount of reimbursement can be the “monthly amount of loan payment” as opposed to the Application where the reimbursement amount is referred to as the “required monthly payment” amount. It is not clear if the reimbursement amount is the required monthly loan payment, or the monthly amount paid by the employee. The OIG agrees with the term in the Application “required monthly payment” amount, which differs from LAFLA management’s interpretation of the reimbursement amounts as explained below.

LAFLA management explained that employees are reimbursed for actual payments made on their loans up to \$500 per month.⁴

LAFLA management added that the former Senior Staff Accountant maintained the LSLR tracking spreadsheet. The tracking spreadsheet has not been maintained since the departure of the Senior Staff Accountant. LAFLA management told us they will conduct more research to identify the discrepancies. Per LAFLA’s staff roster, the former Senior Staff Accountant was employed from June 1, 2009, through November 26, 2021.⁵

The LSLR overpayments to employees do not conform with LAFLA’s requirements as stipulated in the LSLR Application below:

The Certification⁶ section of the LSLR Application states:

This is to certify that loan documents I have provided to LAFLA Administration evidence loans I obtained for the purpose of paying expenses incurred to attend law school. I further certify that the balance due on that/those loans was \$(X) amount and as of (X) date and that I am required to make monthly payments of \$(X) amount. I commit to notify LAFLA if (a) my required monthly payment for my law school loan(s), or the law school loan portion of any consolidation of my loans should fall below \$500, and (b) my law school loan(s) should be paid in full during my employment with LAFLA.

In complying with clearly written policies and procedures and adequately documenting any deviations, LAFLA management can reduce the risks of erroneous, fraudulent, or improper transactions occurring or going undetected.

⁴ Per CBA § 7.7.4 the maximum LSLR reimbursement amount is \$500 per month.

⁵ The Senior Staff Accountant role has been vacant for approximately 3 months of the audit scope period.

⁶ Per LAFLA’s LSLR Application, prior to April 2021 the maximum monthly reimbursement was \$300.

We recommend that the Executive Director:

Recommendation 3: Update the language on the CBA so that the guidance is clear as to whether the amount to be reimbursed is the required monthly loan amount not to exceed \$500 per month, as long as the accumulated payments are not higher than the loan amount.

Recommendation 4: Review LSLR transactions from January 1, 2020, through February 28, 2022, including but not limited to obtaining complete Applications, verifying the minimum loan repayment amounts based on Supporting Documentation, and verifying reimbursement amounts paid. Recover, if any, confirmed overpayments to date.

An Ineligible Employee Was Awarded LSLR

We found that a non-attorney, specifically the former Director of HR, who was not eligible for LSLR was issued reimbursements totaling \$8,799 in 2020 and 2021. LAFLA provided a memo from the former Director of HR, addressed to the Executive Director, explaining why she should receive LSLR. The Executive Director signed and dated the memo from the Director of HR. However, it was not clear whether the signature and date constituted an approval. In addition, there was no documentation of the deviation from LAFLA's policy.

LAFLA management explained that the former Director of HR was a barred attorney with an eligible law school loan. Their background as an attorney proved useful in the Director of HR role. Additionally, to avoid the appearance of discrimination between union and non-union staff, the benefit was granted to the employee.

LAFLA did not conform with CBA § 7.7.2 when they awarded LSLR to a non-attorney as stipulated below:

LAFLA's CBA § 7.7.2, Persons Eligible for Loan Payment Reimbursement, states:

Attorneys hired for attorney positions working or being paid for at least 21 hours per week, whether temporary or non-temporary, are eligible for LSLR.

Independent contractors and AmeriCorps participants are not eligible. Fellows are only eligible for reimbursement if their fellowship does not provide law school loan repayment assistance and if the fellowship sponsor allows the fellow to receive such reimbursement. Employees on unpaid leave will not receive reimbursement during the period of such leave.

Complying with written policies and procedures and adequately documenting any deviations can reduce the risks of erroneous, fraudulent, or improper LSLR transactions occurring or going undetected.

We recommend that the Executive Director:

Recommendation 5: Implement a new policy to adequately document any deviation from CBA § 7.7.2.

LAFLA's General Ledger Record does not Reconcile with LSLR Tracking Spreadsheet

LAFLA provided a general ledger⁷ record of the total LSLR within our audit scope period, totaling \$138,457, of which 34% or \$47,351 was charged to LSC. The allocation of these reimbursements was based on a full-time equivalent calculation and in the same manner as salary and wages. The grantee also provided a tracking spreadsheet for LSLR paid within our audit scope period, totaling \$217,461. We compared the totals from the general ledger to the tracking spreadsheet and noted a difference of \$79,004 between these two records. In addition, we were not able to trace individual reimbursement transactions from the tracking spreadsheet to the general ledger, which stems from a lack of employee LSLR information recorded in the general ledger. Therefore, we considered the general ledger as not sufficiently reliable as it relates to LSLR transactions and as mentioned in Questioned Costs below.

LAFLA management explained that they needed more time to research the discrepancy and that there is no separate account code for LSLR. However, the data in the general ledger is generated by Automatic Data Processing, Inc.⁸ (ADP), and the grantee informed us they are confident that the general ledger is complete. LAFLA management further explained that the tracking spreadsheet was used primarily for internal management purposes. The spreadsheet assisted LAFLA in making sure employees were not being reimbursed beyond the maximum allowed, which was particularly helpful due to the random timing of reimbursement requests.

The LSC Accounting Guide, § 2-5, states: "Each recipient should establish the system most appropriate to its needs and provide an adequate audit trail for all transactions."

⁷ A general ledger summarizes and classifies all financial transactions from data accumulated in the books of original entry. The general ledger is the final and permanent record of all the recipient's financial transactions and the basis for preparation of the financial statements. Our audit scope did not cover the review of the grantee's audited financial statements; therefore, we are not implying that the grantee's audited financial statements are inaccurate. However, for the purposes of this audit, we found the general ledger was not sufficiently reliable for the tracking of the LSLR transactions.

⁸ LAFLA outsources the payroll processing through ADP.

In addition, the LSC Accounting Guide, § 3.5-6, states: “Each entry to the general journal should be fully described, adequately documented, sequentially numbered, and approved by an authorized individual.”

Unsupported or poorly referenced journal entries are difficult to trace, make it difficult to detect irregularities, and may increase audit costs. Incomplete, inaccurate, or unsupported entries to the general ledger increase the possibility that the financial data may misrepresent the actual financial position of the recipient.

We recommend that the Executive Director:

Recommendation 6: Reconcile the general ledger record with the LSLR tracking spreadsheet to ensure accurate accounting and recording of law school reimbursements.

Recommendation 7: Update the Accounting Manual to include procedures for periodically reconciling the LSLR tracking spreadsheet and accounting records.

Questioned Costs Were Identified Related to Inconsistent and Inadequate Documentation of LSLR

We consider the LSLRs charged to LSC unreasonable and unnecessary pursuant to LSC regulation 45 C.F.R. § 1630.5(a), subsections (2), (6), and (8), which states that expenditures are allowable under LSC grant or contract only if the recipient can demonstrate the cost was accorded consistent treatment over time and adequately and contemporaneously documented in business records accessible during normal business hours to the OIG.

The OIG is questioning the full \$217,461 due to not being able to determine the discrepancy in recording of the LSLR payments nor being able to confirm whether the allocated amount to LSC of \$47,351 is accurate. Included in the questioned costs total of \$217,461 are the \$23,737 of LSLR overpayments to 17 employees and \$8,799 LSLR payments to an ineligible employee. We will be referring \$217,461 to LSC Management for review and action.

Zero Interest Vacation Loans (Vacation Loans)

LAFLA defines the Vacation Loan as a zero-interest-bearing loan program established to help employees through financial difficulty by providing interest-free loans secured by accrued vacation time. The program is intended as a safeguard from financial hardship and is not intended to be used repeatedly. We reviewed LAFLA’s processes and procedures related to all four Vacation Loans issued during the audit scope period. These four Vacation Loans were issued to three employees and totaled \$9,162. Our review found inadequate documentation, Vacation Loans

charged to LSC, and inadequate recording to trace Vacation Loan payments deducted from payroll to the payments in the general ledger.

LAFLA Did Not Have Adequate Documentation for Four Vacation Loans

In our review of LAFLA’s approval and documentation for all four Vacation Loans, we noted the following:

- Three did not have documentation of written requests.
- Two did not have documentation of approval from the Executive Director or Designee.
- Three did not have proof of expense.

Figure 2 outlines the results of our review.

Figure 2: Summary of Inadequate Documentation

Loan No.	Loan Amount	Amount Charged to LSC Per General Ledger	Employee	Date of Promissory Note Signed	Documentation On-File		
					Written Request	Approval from the Executive Director or Designee	Proof of Expense
1	\$5,000	\$5,000	A	5/21/2020	Yes	Yes	Yes
2	\$2,148	\$2,148	B	10/12/2020	No	No	No
3	\$800	\$800	C	6/29/2020	No	No	No
4	\$1,214	\$1,214	C	7/19/2021	No	Yes	No
Total	\$9,162	\$9,162			3	2	3

According to LAFLA management, these transactions do not occur on a regular basis. Various factors may have contributed to the incomplete files related to each loan including staff turnover and lost documentation. The grantee also explained that they have no doubt that the Executive Director approved these Vacation Loans because no disbursement would have occurred without such approval. LAFLA management also stated that they fell short in compiling and managing the

corresponding documentation. They added that the Finance and HR departments have emphasized the importance of sufficient documentation and will implement the appropriate procedures going forward.

The inadequate approvals and documentation over Vacation Loans do not conform with LAFLA's requirements per the CBA as stipulated below:

The CBA § 7.6, Zero Interest Based Loan, states:

A request for a loan based on personal necessity must be submitted in writing stating the need to the Executive Director or designee. The request and need will be kept confidential. Repayment for each loan will be established in writing at the time the loan is made.

In addition, CBA § 7.6(h), Zero Interest Based Loan, states:

The Employee must submit proof of the expense as soon as reasonably practicable under the circumstances. The amount approved cannot exceed the cost of the expense. If the loan amount exceeds the cost of the expense, the employee will reimburse the difference within 30 days.

LAFLA's Accounting Manual⁹, Zero Interest Vacation Loans, states:

The Director of Fiscal Management (DFM) is responsible for administering the Vacation Loans, which includes maintaining a log of outstanding loans, ensuring proper documentation to support the loan, and ensuring that ADP deducts the appropriate amount from employee paychecks. All requests for zero percentage vacation loans must be approved by the Executive Director or the Chief Financial Officer (CFO).

The absence of sufficient documentation to support the request compromises the intent of the Vacation Loan. In addition, the lack of approvals increases the risk of abuse or impropriety.

We recommend that the Executive Director:

⁹ For the purpose of this report, the OIG is citing LAFLA's 2021 Draft Accounting Manual as Accounting Manual to allow the OIG to provide an effective recommendation as it relates to the current situation. In our discussions with the Chief Financial Officer (CFO), they indicated that LAFLA abides by the 2021 Draft Accounting Manual. Additionally, LAFLA management decided not to require a formal Board approval of the entire 2021 Draft Accounting Manual. Instead, LAFLA will present any updates to the Finance Committee as they are implemented. The OIG may refer to the 2018 Accounting Manual where there is no applicable board-approved policy in the 2021 Draft Accounting Manual. Both manuals may be referred to together as LAFLA's Accounting Manuals.

Recommendation 8: Formalize and document the process for requesting and approving Vacation Loans.

Recommendation 9: Review all documentation, including but not limited to written requests, to ensure that proof of expense as well as approvals, from the Executive Director or Designee, are obtained for all active Vacation Loans.

LAFLA Did Not Follow Its Own Policy When Vacation Loans Were Charged to LSC

LAFLA did not follow the Vacation Loan policy as stipulated in their Accounting Manual. Per our review of the general ledger, we found that \$9,162 was coded to LSC.

LAFLA management explained that these loans are kept on a balance sheet account which would not result in a reportable expense to LSC. They added that they plan to make the adjustments internally to prevent using LSC fund codes for balance sheet accounts unless they are truly tied to LSC.

The Vacation Loans coded to LSC do not conform with the Accounting Manual as stipulated below:

LAFLA's Accounting Manual, Zero Interest Vacation Loan, states: "No LSC funds shall be used for such loans."

Not following policies and procedures and inaccurate use of funding codes may result in violation of LSC regulation 45 C.F.R. § 1630.5 and may be subject to questioned cost proceedings.

We recommend that the Executive Director:

Recommendation 10: Implement written policies and procedures, as stipulated in the Accounting Manual, that "No loans shall be charged to LSC" and reallocate Vacation Loans to funding sources other than LSC.

Vacation Loan Payments Were Not Adequately Recorded

LAFLA provided the ADP payroll records reflecting that all four Vacation Loans were repaid. However, we could not trace all payments deducted from payroll to the general ledger. We found that the Vacation Loan payments were not properly recorded and reconciled to the general ledger when deducted from payroll. Overall, we were not able to trace repayments totaling \$8,250. See Figure 3.

Figure 3: Summary of Inadequate Recording of Vacation Loan Payments

Loan No.	Loan Amount	Employee	Date of Promissory Note Signed	Date of Last Payment within the Audit Scope	Total Number of Payments	Total of Payment Amount Not Traceable	Total Amount of Payments Not Traceable
1	\$5,000	A	5/21/2020	11/20/2020	26	26	\$5,000
2	\$2,148	B	10/12/2020	12/9/2021	26	24	\$1,983
3	\$800	C	6/29/2020	6/25/2021	26	26	\$800
4	\$1,214	C	7/19/2021	2/18/2022	15 ¹⁰	10	\$467
Total	\$9,162						\$8,250

As mentioned above, these Vacation Loans were coded to LSC. Also, the Accounting Manual does not sufficiently detail procedures for recording, accounting, and reconciling payments for Vacation Loans.

The grantee explained that the payments on these balances are recorded onto the general ledger as a lump sum rather than as an individual loan. For example, if there are two outstanding loans receivable, the lump sum of employee payments withheld would be recorded, not separate lines for each employee. They added that LAFLA’s legacy procedure is to use the LSC fund code on balance sheet accounts.

LAFLA’s inadequate recording of Vacation Loan payments does not adhere to their own policies and procedures as well as LSC criteria and guidance as stipulated below:

LAFLA’s Accounting Manual Zero Interest Vacation Loans, states:

The DFM is responsible for administering LAFLA’s Zero Percentage Vacation Loan program, including maintaining a log of outstanding loans, ensuring proper documentation to support the loan, and ensuring that ADP deducts the appropriate amount from employee paychecks.

The LSC Accounting Guide, § 2-5, states: “Each recipient should establish the system most appropriate to its needs and provide an adequate audit trail for all transactions.”

¹⁰ For Loan No. 4, there were 15 repayments of approximately \$467 within the audit scope period.

The LSC Accounting Guide, § 3.5-6, states: “Each entry to the general journal should be fully described, adequately documented, sequentially numbered, and approved by an authorized individual.”

The LSC Accounting Guide, § 3-4(5), states: “Each recipient must develop a written accounting manual that describes specific procedures to be followed by the recipient in complying with the Fundamental Criteria.”

Unsupported or poorly referenced entries are difficult to trace and make it difficult to detect irregularities. Also, the establishment of specific and detailed policies and procedures for properly documenting, recording, and reconciling Vacation Loans helps ensure that the transactions are traceable and accurate.

We recommend that the Executive Director:

Recommendation 11: Update the Accounting Manual to sufficiently detail procedures for maintaining a log of outstanding loans, including recording, reconciling, and accounting for loan repayments in the general ledger or subsidiary ledgers.

Recommendation 12: Reconcile the loan repayments deducted from payroll to each employee’s Vacation Loan to ensure accurate accounting records.

Cell Phone Stipends

During the COVID-19 pandemic, all employees were provided a monthly stipend of \$30 for internet and miscellaneous office supplies as well as a monthly stipend of \$40 for cell phones. A memo was circulated to all employees on April 24, 2020, stating that a monthly internet stipend in the amount of \$30 would be paid to all employees to supplement the cost of utilizing personal internet bandwidth and any miscellaneous personal office supplies. However, the April 24, 2020, memo does not include the \$40 stipend for cell phones. After further inquiry with grantee staff, we found that before the COVID-19 pandemic, LAFLA provided cell phone stipends to management and attorney employees. In our review of the Cell Phone Stipend Agreement form, we confirmed that the \$40 cell phone stipend was originally intended only for attorneys and management employees. As a result, we found that LAFLA has no policy for cell phone stipends issued to non-management and non-attorney employees.

LAFLA Does Not Have a Policy for Cell Phone Stipends Issued to Non-Managers and Non-Attorneys

LAFLA issued \$6,000 in cell phone stipends to 150 non-management and non-attorney employees during the audit scope period. These stipends were charged to LSC COVID-19 pandemic funds. However, as mentioned above, a policy or memo was not established or issued for these stipends.

LAFLA management indicated that California Labor Law Code §2802¹¹ requires employers to reimburse employees for any necessary expenses or losses they incur while doing their job. Grantee management also explained that the probable cause was an oversight because they were so focused on providing the need for all staff to be telework ready.

The lack of policy over cell phone stipends issued to non-managers and non-attorneys does not conform to the LSC's guidelines as stipulated in the LSC Program Letter noted below:

According to LSC Program Letter 20-3:

Grantees must adopt, implement, and document any new policies or changes in policies. Grantee records should contain sufficient materials for reviewers or auditors to determine what occurred and the basis for the grantee's actions. Grantees should have clear procedures, criteria, and recordkeeping. All policies must be consistent with applicable laws and requirements. LSC can only provide flexibility for LSC-imposed rules.

The lack of written procedures for cell phone stipends paid from LSC COVID-19 funds issued to non-attorney and non-management employees may increase the likelihood of improper stipends, including incorrect amounts and ineligible employees receiving stipends. Without sufficient documentation for new policies or changes to existing policies, it is difficult for auditors to determine what occurred and the basis for the grantee's actions.

We recommend that the Executive Director:

Recommendation 13: Update manuals, including but not limited to the Accounting Manual, Employee Handbook, and CBA to include policies and procedures for cell phone stipends issued to non-management and non-attorney employees.

¹¹ While not specific to cell phone stipends, California Labor Code §2802 requires employers to reimburse employees for any necessary expenses or losses they incur while doing their job.

Credit Cards

The OIG reviewed the grantee’s written policies and procedures as well as practices in place to determine whether the processes over credit cards are comparable to LSC’s Fundamental Criteria and adhere to LSC regulations and guidelines.

The grantee has three types of credit cards: a general-purpose credit card, store card, and a gas card. The general-purpose card has three cardholders: the Executive Director, the CFO, and the Director of Strategic Projects. The Grantee’s Facilities Administrator is the sole cardholder for the store card and gas card. These credit cards are used for authorized business transactions such as travel, meetings, office supplies, and equipment purchases.

We judgmentally selected and reviewed 18 credit card statements from the grantee’s three credit card types to perform testing. The credit card statements tested consisted of 93 transactions within our audit scope period and totaling \$35,612. See Figure 4 below for a summary of credit card statements and transactions reviewed.

During our review, we noted the following: lack of supporting documentation over credit cards, lack of review of credit card statements, lack of Board oversight of Executive Director credit card purchases, lack of a credit card user agreements, and inadequate policies over credit cards.

Figure 4: Summary of Credit Card Activity Reviewed

Credit Card	Sum of Transaction Amounts	Number of Transactions	Number of Statements Reviewed
General Purpose	\$33,203	68	2
Store Card	\$1,234	8	2
Gas Card	\$1,175	17	14
Grand Total	\$35,612	93	18

LAFLA Lacked Supporting Documentation Over Credit Cards Usage

For our testwork, we requested two statements for the general-purpose credit card and two statements for the store card. LAFLA was able to provide these statements. Per LAFLA, the gas card vendor does not provide statements when there is no activity for the month and the card expired as of November 2021. Consequently, to ensure adequate audit coverage, we requested all available gas card statements within the audit scope period for our review. Since there was no activity for the months of June and July of 2021, the total number of months with credit card activity was 21. LAFLA could not locate seven of the 21 statements.

In addition, we requested supporting documentation, such as receipts, for all credit card activity for the 18 months of credit card statements received. As a result, we identified 24 transactions without supporting documentation. Seven of these transactions were from the general-purpose credit card. The remaining transactions were fuel purchases from the gas card. The 24 transactions totaled \$1,611, of which \$897 was charged to LSC. We did not identify unsupported transactions for the store card.

Per grantee management, the lack of supporting documentation was attributed to staff turnover and difficulty in maintaining electronic supporting documentation from the grantee's traditional hard copy filing system.

The lack of supporting documentation over the use of LAFLA's credit cards does not adhere to the grantee's written policies and procedures or LSC guidance as stipulated below:

LAFLA's Accounting Manual states: Cardholders are required to provide detailed, original receipts supporting all purchase activity.

The LSC Accounting Guide, § 3-5.4(a), states: "The receipt of goods and the accuracy of invoices should be verified and documented."

In addition, the LSC Accounting Guide, Appendix VII(G)(6), advises recipients to establish an appropriate system for filing checks, check copies, non-check disbursements, and supporting documents in a manner where appropriate staff can readily locate them.

Without ensuring adequate documentation is obtained and centrally filed, credit cards may be subject to unauthorized use and transactions. Additionally, without receipts, it is not possible to verify receipt of goods.

We recommend that the Executive Director:

Recommendation 14: Enhance procedures to ensure that supporting documentation, including statements, receipts, and invoices, are maintained on file to support all credit card purchases.

Credit Cards Were Not Reviewed and Did Not Receive Oversight From the Executive Director

Of the 18 credit card statements reviewed, we found 16 credit card statements lacked the Executive Director's signature and date to document review and approval of the expenses charged. Fourteen of the 16 unapproved statements were from the gas card, one was from the store card, and the other was from a general-purpose credit card.

LAFLA management stated that the store and gas cards are not reviewed in the same manner as the general-purpose credit card and are treated as invoices. They further explained that the Facilities Administrator, who reports directly to the Executive Director, is the sole user of the gas

and store credit cards. There was no explanation provided for the lack of Executive Director review of the general-purpose card statement.

LAFLA did not adhere to LSC guidance or their own written policies and procedures over the Executive Director's review and approval of credit card expenses as stipulated in the criteria below:

LAFLA's Accounting Manual states: Upon receipt of corporate credit card statements, the Executive Director will review and sign each statement.

Additionally, the LSC Accounting Guide, Appendix VII(G3)(6), advises a timely review of credit card transactions and supporting documentation to validate disbursements.

Without appropriate management oversight of credit card transactions, cardholders could make impermissible purchases especially if there is only one person responsible for managing transactions.

We recommend that the Executive Director:

Recommendation 15: Review and sign each credit and store card statement per the Accounting Manual, documenting validity of the transactions.

Executive Director Credit Card Expenses Did Not Receive Oversight From the Board of Directors

The two LAFLA general-purpose credit card statements we reviewed comprised all transactions from each cardholder, including the Executive Director. These statements were from August 2020 and October 2021. The transactions from the Executive Director's credit card activity from both statements were comprised of transportation and office supplies purchases totaling \$9,753.

In our review of these two statements, we did not find any indications of review from a Board member. After our inquiry regarding the lack of Board oversight over the Executive Director's credit card statements, LAFLA provided documentation reflecting that the Board President reviewed all the Executive Director's statements from the year 2021 (evidenced by signature). However, the review from year 2021 was not dated, therefore we could not confirm when the review was conducted and if it was performed regularly. In addition, no documentation of review was provided for the year 2020.

In our discussions with grantee management, they explained that the issue was a result of higher priority items for both the Board and LAFLA management during the past few years.

LAFLA did not adhere to their policies and procedures or LSC guidance in Program Letter 18-3 because they did not obtain Board review and approval of the Executive Director's credit card expenses as stipulated below:

LAFLA's Accounting Manual states: The Executive Director's credit card statement will be sent to the Board President via email with a PDF statement and receipts for review and approval.

LSC Program Letter 18-3, states:

LSC strongly recommends that written policies be adopted and approved by each recipient's BOD to ensure adequate oversight of Executive Director expenses. The Executive Director's expense reports, credit card statements, and travel reimbursements should be approved by a member of the BOD and not by a subordinate of the Executive Director or by the Executive Director himself or herself.

Inadequate oversight of the Executive Director's credit card expenses may result in purchases being made without the knowledge of the Board of Directors or at unacceptable prices or terms.

We recommend that the Executive Director:

Recommendation 16: Work with the Board President to enhance or implement procedures to ensure that the Board President reviews, approves, and adequately documents their approval of the Executive Director's credit card expenditures with a signature and date.

Credit Card User Agreements Were Not Obtained

In our review of the 2018 Accounting Manual, we found that it does not include a requirement for credit cardholders to sign a user agreement form.¹² Also, during our interview with LAFLA management we were informed that LAFLA does not require credit cardholders to sign a user agreement upon issuance of a credit card.

LAFLA management provided an example of a draft credit card user agreement form. They explained that the form is not finalized and a policy requiring cardholders to sign a credit card user agreement form in the 2021 Draft Accounting Manual has not been implemented.

¹² 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.

LAFLA's Accounting Manual states: Upon issuance, cardholders are required to sign the LAFLA Credit Card Use Agreement. Signed agreements will be retained by Finance and in the employees' personnel file.

The LSC Accounting Guide, Appendix VII(G3)(8), advises grantees to develop a form containing relevant credit card policies for employees issued and authorized to use credit cards to review and sign.

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

We recommend that the Executive Director:

Recommendation 17: Finalize and implement the credit card user agreement form, and centrally file signed forms.

Policies Over Credit Cards Did Not Fully Adhere to LSC Guidance

In our review of LAFLA's credit card policies, we found that the policies mostly adhere to LSC's regulations and guidelines. However, the Accounting Manual does not include (1) a policy setting maximum dollar amounts that can be charged on credit cards before managerial approval is required nor (2) a policy for cash advances or ATM withdrawals.

Per LAFLA management, they are currently developing a policy to establish a dollar threshold for credit card transactions that require prior approval. Regarding cash advances, LAFLA management stated that cash advances are not permitted, and credit cards are to be used for business purposes only.

The grantee's written policies and procedures did not conform to LSC guidance because it did not incorporate maximum dollar amounts and policies for cash advances and ATM withdrawals within their Accounting Manual as set forth below:

The LSC Accounting Guide, Appendix VII(G3)(2), recommends that grantees set a maximum dollar amount that can be charged to their credit cards before approval from an authorized independent manager is required. Additionally, LSC Accounting Guide, Appendix VII(G3)(3) suggests implementing a policy prohibiting cash advances and ATM withdrawals.

A lack of written policies and procedures over credit cards increases the risk of unauthorized expenditures.

We recommend that the Executive Director:

Recommendation 18: Update the Accounting Manual to include the following:

- A policy requiring managerial approval for credit card charges above a certain dollar threshold; and
- A policy prohibiting cash advances and ATM withdrawals.

Fixed Assets

The OIG reviewed the grantee's written policies and procedures over property and equipment and the company vehicle. We determined that the grantee's policies are mostly in accordance with LSC regulations and guidelines. We judgmentally selected a sample of 31 items from the 2018 inventory server and computer records to determine the existence and adequacy of tags and supporting documents such as purchase orders, checks and vendor invoices. Our sample mostly consisted of computer monitors and laptops.

As a result, we found the following:

- physical inventory was not conducted once every two years,
- the existence of IT equipment could not be verified,
- no written policies for property below the capitalization threshold (nonexpendable items with a cost in excess of \$5,000 and a useful life more than one year), and
- no written policies for the usage of the company vehicle.

The Physical Inventory was Not Conducted Biennially

LAFLA stated that they typically conduct a physical inventory every two years. The most recent inventory was performed in 2018, thus, the next inventory should have been performed in 2020. However, they did not follow the two-year schedule during the audit scope period because of the COVID-19 pandemic.

The grantee stated that they are aware they should perform a physical inventory every two years and that they were scheduled to conduct an inventory in 2022. During the audit, the OIG was provided documentation and informed that LAFLA performed a physical inventory on January 30, 2023.

By not performing the physical inventory biennially, LAFLA did not adhere to LSC guidance as stipulated in the criteria below:

The LSC Accounting Guide, § 2-2.4, states:

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. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference, and the accounting records should be reconciled to the results of the physical inventory with an appropriate note included in the financial statements, if determined to be material by the recipient's auditor.

Failure to perform a physical inventory every two years may result in the inability to fully account for property and fixed asset purchases. Additionally, there could be an under or overstatement of property account balances in financial records as well as the risk of loss, theft, or misuse of grantee property.

We recommend that the Executive Director:

Recommendation 19: Develop a plan and schedule for a physical inventory to be conducted every two years and ensure documentation supporting the physical inventory is maintained.

The Existence of Seven IT Equipment Items Could Not Be Verified

In our interview with LAFLA management, we found that the grantee tags and conducts an inventory of computers. LAFLA also has processes in place for tracking and maintaining computers by utilizing inventory records specific for computer purchases. However, in our review of 31 items from the inventory records, we could not confirm whether seven of these items exist. The unverifiable items were three laptops, two computer monitors, and two document camera equipment items. The laptops may contain sensitive information.

According to the grantee, for the:

- Three laptops, the LAFLA personnel in possession of the laptops were on a leave of absence, so photo evidence could not be provided at the time of the OIG's request.
- Two computer monitors, the LAFLA personnel neglected to provide photo evidence of their existence due to overlooking our request despite our follow-up inquiries for the documentation.
- Two document camera equipment items, including a document camera and the corresponding camera remote, LAFLA personnel indicated they were outdated, and could not be located.

LAFLA not maintaining the tracking of inventory items below the capitalization threshold was not consistent with their own practice¹³ nor LSC criteria stipulated below:

The LSC Accounting Guide, § 2-2.4, states:

The recipient should be mindful of items that may contain sensitive information (for example, a computer with client confidential information) with values lower than \$5,000 and the need to inventory these items and dispose of them appropriately.

¹³ See Finding "LAFLA Does Not Have Written Policies for Properties Below the Capitalization Threshold"

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. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference, and the accounting records should be reconciled to the results of the physical inventory with an appropriate note included in the financial statements, if determined to be material by the recipient's auditor.

Failure to track IT equipment may result in assets being used for unauthorized purposes and sensitive information becoming insecure.

We recommend that the Executive Director:

Recommendation 20: Implement controls to ensure that IT equipment or properties that fall below the capitalization threshold and may contain sensitive information are tracked and accounted for.

LAFLA Does Not Have Written Policies for Properties Below the Capitalization Threshold

The written policies and procedures included in the grantee's Accounting Manual for purchasing, recording, disposing of, and tagging fixed assets are mostly in accordance with LSC regulations and guidelines. However, LAFLA's IT Director maintains an inventory of computers and/or property with values below the capitalization threshold of \$5,000, and that may contain sensitive information. The grantee's Accounting Manual does not include any policies or procedures for inventorying and disposing of these items. Due to the grantee not having explicit policies surrounding this practice, we found that the grantee did not consistently implement their practice and recordkeeping of these items as stated in practice.

Per the grantee, they do not consider or treat equipment with values below \$5,000, and that may contain sensitive information, as "fixed assets" from a recordkeeping and physical inventory standpoint. Management is still working through a process to sufficiently inventory such items and track corresponding disposals.

LAFLA does not have policies that document their practices for tracking items that may contain sensitive information and value lower than \$5,000. The lack of policies does not adhere to LSC guidance as stipulated below:

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.”

In addition, the LSC Accounting Guide, § 2-2.4, states:

The recipient should be mindful of items that may contain sensitive information (for example, a computer with client confidential information) with values lower than \$5,000 and the need to inventory these items and dispose of them appropriately.

The lack of policies for inventorying and disposing of IT equipment that contains sensitive information increases the risk of information being compromised or used for unauthorized purposes.

We recommend that the Executive Director:

Recommendation 21: Review the grantee’s current practices and procedures over recording equipment and laptop purchases which may fall below the capitalization threshold and incorporate those practices in the grantee’s Accounting Manual.

LAFLA Does Not Have Documented Policies Over Company Vehicle Usage

We confirmed during our review that the grantee owns a van which was purchased in 2007. LAFLA management stated that donated funds were used to purchase the van. The Facilities Administrator is the only authorized driver and primarily uses the van to move office furniture.

We requested policies surrounding the use of the vehicle and mileage or usage logs. The grantee did not have a written policy setting forth the parameters for use of the vehicle. Additionally, the grantee did not provide mileage or usage logs for the vehicle.

According to the grantee, logs were used prior to the COVID-19 pandemic, and they do not recall the van being used in the last two years. The grantee stated that the auto insurance policy, stipulating the only authorized user for the vehicle is the Facilities Administrator, contained sufficient policies over the company vehicle.

By not having written policies concerning their practices over the use of the company vehicle, LAFLA does not adhere to the criteria as stated below:

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.”

Implicit, unwritten procedures often lead to misunderstandings and less than efficient operations. Without adequate controls and definitions of responsibilities, the company vehicle may be used in a manner that violates management intentions or is otherwise unauthorized.

We recommend that the Executive Director:

Recommendation 22: Create written policies over the use of the company vehicle, to include but not limited to policies over:

- personnel authorized to use the company vehicle,
- mileage log usage, and
- documentation to be maintained when using the vehicle, such as fuel receipts.

Contracting

The OIG reviewed the grantee’s written policies and procedures as well as its practices to determine whether their contracting processes are comparable to LSC’s Fundamental Criteria and adhere to LSC regulations and guidelines. For our testwork, we judgmentally selected 12 contracts based on type of service, high-dollar amount, and total number of payments issued to determine if LAFLA has adequate internal controls. The payments made to these contracts within the audit scope period totaled \$1,517,139, of which, \$476,812 was charged to LSC.

As a result of our testwork, we found that LAFLA’s contracting processes are inadequate and their practices do not fully comply with LSC regulations or with LAFLA’s own policies and procedures. Specifically, we found inadequate contracting approvals and documentation, inadequate policies, and procedures over micro-purchases and high-dollar contracts, and inadequate practices over contract terms. See Figure 5 for the list of contracts reviewed.

Figure 5: List of Contracted Vendors Reviewed¹⁴

Contract No.	Description	Total Amount Disbursed from 1/1/2020 to 2/28/2022	Total Amount Charged to LSC from 1/1/2020 to 2/28/2022	Equivalent Percentage Charged to LSC
1	Janitorial Service	\$ 166,218	\$ 50,783	31%
2	Internet Service	\$ 81,827	\$ 34,926	43%
3	Wi-Fi/Hot Spot Service	\$ 5,213	\$ 3,706	71%
4	Financial Statement Audit	\$ 139,900	\$61,574	44%
5	Architect Design Service	\$ 337,635	\$0	0%
6	Staffing Service	\$ 156,424	\$ 93,004	59%
7	Graphic Design Service	\$ 40,856	\$ 5,130	13%
8	Case Management Software Service	\$ 202,219	\$ 67,750	34%
9	Landscaping Service	\$ 9,560	\$ 7,465	78%
10	Hot Spot Device Lease	\$ 7,446	\$ 3,155	42%
11	Consulting Service	\$ 1,299	\$ 1,000	77%
12	Copy Machine Lease and Service	\$ 368,542	\$ 148,319	40%
Total		\$1,517,139	\$476,812	

¹⁴ Figure 6 provides information about the type of contracted services, total amount disbursed, total amount charged to LSC, and the equivalent percentage rate charged to LSC.

LAFLA Did Not Maintain Adequate Documentation and Approvals Over Contracts

In our review of 12 contracts, we identified contracts that were not fully documented, approved, or maintained on file.

- No contract: Of the 12 contracts reviewed, the Architect Design Service, which OIG considers a high-dollar contract, did not have a signed contract on file. LAFLA provided the proposal, memo for sole-source justification and invoices. However, there was no contract provided for the Architect Design Service.

The grantee stated the Architect Design Service contract was provided. However, the document provided was a proposal.

- No documentation of “needs” request and approval: We noted all 12 contracts had no documentation of a “needs” request and approval. LAFLA management explained that contracts are initiated or requested based on need. A “needs” request is submitted to the Executive Director. The Executive Director consults with the CFO for costs and budget before approving the “needs” request. The grantee added that the discussion of “needs” is always presented to senior management. However, documentation of the presentation to senior management is not always obtained. They plan to bolster the procurement procedures to ensure sufficient documentation.

- Expired Contracts: We found that three of the 12 contracts were expired. Per the check register, payments were made to these contracted vendors within the audit scope period as follows:

- The Janitorial Service contract was established in 2008 and is considered a continuous contract¹⁵. We also found that LAFLA was invoiced or billed for janitorial services for four office locations. However, only one office location is included in the contract.

Per grantee management, the contract was continuously renewed. However, due to the turnover of the Deputy Director position the documentation of the continuous renewal could not be located.

- The Graphic Design Service contract provided was from 2018. According to the grantee, they were unable to locate the retainer agreements for the years 2020 and 2021. Grantee management suspects the documents could not be located due to staff turnover.

¹⁵ LSC Program Letter 16-3, The Procurement Policy Drafting 101: “Guidance for LSC Grantees” (attachment), Section III, recommends re-competing long-standing contracts every three to five years to ensure the best value is obtained.

- The Wi-Fi/Hot Spot Service device leasing contract had a termination date of July 20, 2019. However, there were payments to the vendor in 2020 and 2021. In addition, there was no formal contract for the Wi-Fi/Hot Spot Service device lease from the same vendor during the audit scope period.
Per LAFLA management, the lack of formal contract renewal was due to projected cost and informal procurement.
- No documentation of bids or sole-source justifications: Of the 12 contracts reviewed, 11 lacked documentation of bids or justifications, if sole-sourced. Per our discussion with grantee management, four contracts were sole-sourced, and one contract may have been sole-sourced. Also, seven contracts may have sought quotations or bids.

The grantee acknowledged the lack of documentation in this area. We were informed that they are working to improve this area by developing forms and training. The lack of documentation was due to staff turnover, projected costs, or informal procurement.

- No documentation of final approvals or selections: We found that 11 contracts had no documentation of approvals for the final selection.
Per grantee management, the final signature executing the contract serves as final approval.
- Payments made were inconsistent with contract terms: Payments to three contracted vendors were not made according to the contracted amount or terms, as detailed below:
 - LAFLA made payments for the Janitorial Service contract for three offices that were not included in the agreement.
Per LAFLA management, the contract amount is estimated based on the hourly rate of the assigned vendor employee, but actual cost can vary. Additionally, per the grantee, rate adjustments had occurred since the original contract was executed.
 - The Graphic Design Service contract had an agreed upon rate of \$65 per hour for non-profits. However, LAFLA was invoiced at a rate of \$80 per hour.
According to the grantee, rates vary depending on the project type. For normal projects typical to its operating year, the grantee stated they were charged \$65 per hour, per the retainer agreement. However, at times the grantee contracted with the graphic design vendor for special projects outside the scope of the retainer. Under those circumstances, the hourly rate was set by the graphic design vendor and varied from the rate included in the retainer agreement.
 - The Landscaping Service contract, executed in 2020, was for monthly services to the grantee's Ron Olson Justice Center office, totaling \$250 per month. However, LAFLA was invoiced for services to their South Los Angeles office in the amount of \$150 per month.

Per LAFLA management, they were billed for an office that was not included in the contract because of projected cost and informal procurement.

- Unable to determine if payments were in accordance with the contract: We were unable to determine if payments were in accordance with the contract for two of the 12 contracted vendors reviewed:

- LAFLA provided us with three contracts for the Wi-Fi/Hot Spot Service. However, it was not clear whether any of the three contracts were for LAFLA because the contracts did not include the grantee's name, address, payment term, or termination date. Also, there were invoices for Wi-Fi/Hot Spot Services included in two disbursement transactions addressed to an individual not included in the staff roster.

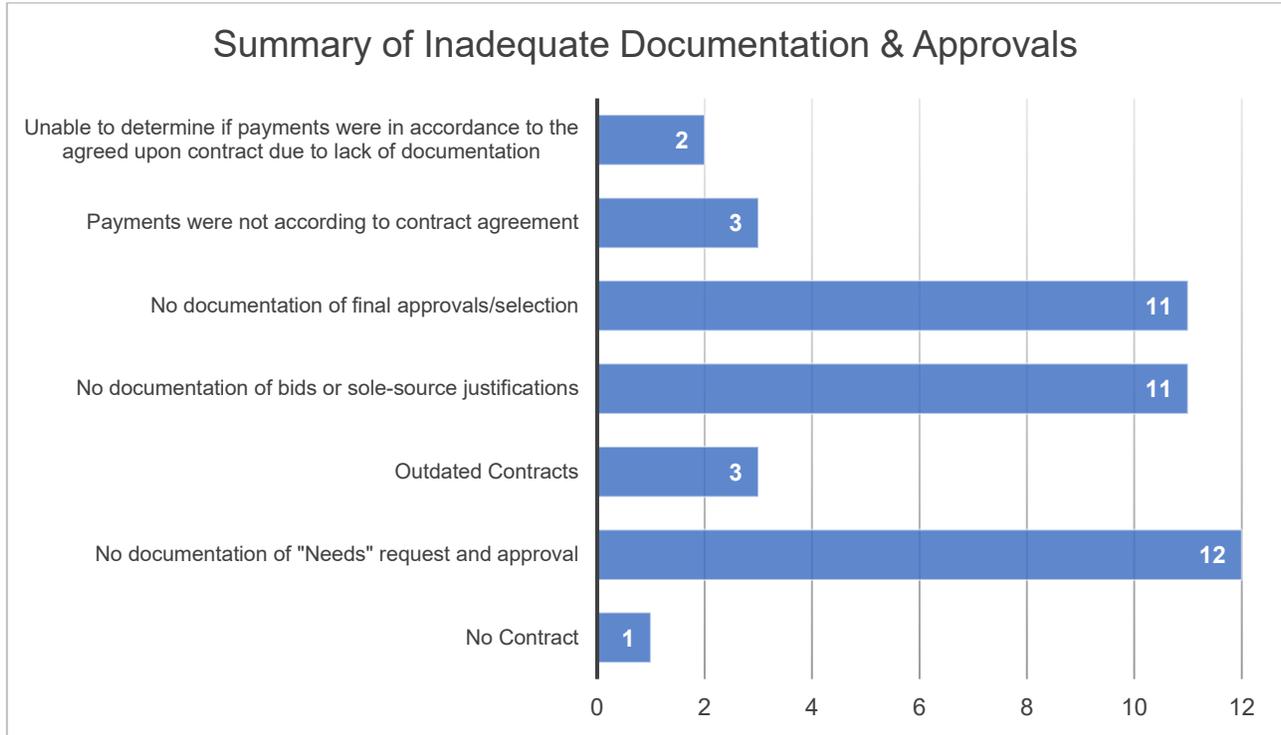
Despite our inquiry, LAFLA provided no explanation for providing information to confirm that the three contracts provided to us actually belonged to LAFLA. During the preliminary exit conference, LAFLA management explained that the individual not included in the staff roster was a former contractor from 2018.

- We noted that there was no documentation of an agreed upon rate for each hire from the Staffing Service vendor for personnel placement service.

According to the grantee, the Staffing Service executed a single contract for all placements, not one contract for each individual placed.

See Figure 6 for the number of inadequate documentation and approvals findings associated with each contract.

Figure 6: Summary of Inadequate Documentation and Approvals



LAFILA’s internal control weaknesses over contracting procedures—including having contracts that were not fully documented, approved, or maintained on file—were not in alignment with LSC guidance as stipulated below:

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. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that the deliverables are completed.

Proper documentation helps ensure that payments made to individuals or vendors are appropriate and supported by approved and active contracts; and that the approved contract was awarded and monitored in accordance with established procedures.

We recommend the Executive Director:

Recommendation 23: Develop a formal and comprehensive contract procurement process including "needs" requests, approvals, required documents, and documentation of any deviation from the procurement process to be kept on file that is centrally located and readily accessible.

Recommendation 24: Review the following active contracts to obtain and file the required documentation as follows:

- Contract for the Architect Design Service.
- Documentation of "needs" requests and approvals for all 12 contracts¹⁶.
- Current contracts for three outdated contracts.
- Documentation of bids or justification, if the contract was sole-sourced, for the 11 contracts (All contracts, except for the Architect Design Service contract) missing this documentation.
- Documentation of final approvals for the 11 contracts (All contracts, except for the Architect Design Service contract) missing this documentation.
- Documentation providing justification or rationale for the payments made to the three vendors (Janitorial, Graphic Design, and Landscaping Service contracts) that were inconsistent with contract terms.
- Documentation reflecting that payment transactions for two contracts (Wi-Fi/Hot Spot and Staffing service contracts) within the audit scope period were made in accordance with the contract.
- Documentation that Wi-Fi/Hot Spot Service contract and invoice are addressed to LAFLA.

LAFLA Has Weak Internal Control Policy Over Micro-Purchases

As a result of our review, we found that the current written policies and procedures over contracting appear to be mostly reasonable and comparable with LSC's Fundamental Criteria. However, the grantee's Accounting Manual increased the dollar thresholds which require competition, documentation, and management approval from a minimum of \$5,000, under the 2018 Accounting Manual, to a minimum of \$25,000. The Accounting Manual defines Micro-Purchases as not exceeding \$25,000 and does not require competition or specific documentation (outside of normal authorization procedures) for Micro-Purchases, which also resulted in the lack of contracting approvals and documentation as mentioned above.

¹⁶ The OIG is referring to the following 12 contracts: Janitorial Service, Internet Service, Wi-Fi/Hot Spot Service, Financial Statement Audit, Architect Design Service, Staffing Service, Graphic Design Service, Case Management Software Service, Landscaping Service, Hot Spot Device Lease, Consulting Service, Copy Machine Lease and Service.

In addition, the Accounting Manual states that all expenses exceeding \$25,000 must be approved by the Executive Director. However, the Accounting Manual does not clearly state whether employees authorized to incur costs up to \$25,000 on behalf of LAFLA require any approval or specific documentation prior to incurring costs.

According to the grantee, the \$5,000 threshold was outdated and deemed unreasonably low for an organization with an operating budget of approximately \$30 million. They chose \$25,000 as the threshold to match the updated LSC prior approval guidelines and sole-source procurement thresholds. The grantee intended to make it easier for staff to remember and to increase compliance. Regarding the employees that are authorized to incur purchases on behalf of LAFLA: per the grantee, "the policy does not state these employees are authorized to incur cost 'without approvals.'" The grantee confirmed that the policy shows which employees are authorized to approve expenses and up to what amount they are authorized to approve. All expenses require approval.

LAFLA's weak internal control policy over micro-purchases do not conform with LSC's guidelines as stipulated in the Program Letter below:

LSC Program Letter 16-3, The Procurement Policy Drafting 101: "Guidance for LSC Grantees" (attachment), Section II, states that an effective procurement policy typically addresses the following topics: (1) Competition, (2) Negotiating Terms, (3) Documentation, and (4) Internal Controls. Additionally, this guidance provides best practices for an effective procurement policy. The example in the Level of Competition Required section provides the following competition requirements based on purchase cost:

- \$0 - \$3,000: Certification of Best Value or Price Comparison
- \$3,001 - \$10,000: Request for Quotes, Evaluation Sheet
- \$10,000+: Request for Proposals, Evaluation Plan, Team, and Evaluation Sheet

Also, the LSC Accounting Guide, § 3.5.16, states: "The required approval level should be established for each contract type and dollar threshold, including when the BOD should be notified and give approval."

A weak internal control over Micro-Purchases may result in contracts entered into without proper approval and documentation.

We recommend that the Executive Director:

Recommendation 25: Update the procurement policies similar to the Procurement Policy Drafting 101: Guidance for LSC Grantees including but not limited to the following:

- A requirement of certification of best value or price comparison for procurements between \$X¹⁷ to \$X.
- A requirement of request for quotes and evaluation sheet for procurements between \$X to \$X.
- A requirement of request for proposals, evaluation plan, team, and sheet for procurements greater than \$X.
- A requirement for periodically re-competing recurring purchases and long-standing contracts.

Recommendation 26: Update the Micro-Purchases section of the Accounting Manual to clearly state that the employees authorized to incur costs on behalf of LAFLA require approvals prior to purchasing.

LAFLA's Policies and Practices Over High-Dollar Contracts Were Inadequate

After reviewing LAFLA's Accounting Manuals, we confirmed that there is no current grantee policy requiring a rebid of high-dollar contracts every three to five years or one over automatic renewals. In addition, we noted nine out of 12 contracts had no specific termination date, were considered continuous contracts, or were auto renewed.

Per LAFLA management, the exclusion of rebidding and automatic renewal policies from its Accounting Manuals was not brought up to them in the past and therefore was not implemented. They added that they can certainly incorporate such a policy.

The inadequate policies and practices over high-dollar contracts do not conform with LSC's guidelines as stipulated in the Program Letter noted below:

LSC Program Letter 16-3, The Procurement Policy Drafting 101: "Guidance for LSC Grantees" (attachment), Section III, recommends re-competing long-standing contracts every three to five years to ensure the best value is obtained.

This guidance discourages automatic renewals and further states:

Many service and maintenance contracts contain clauses that automatically extend the contract for an additional term unless the organization notifies the contractor

¹⁷ "X" denotes an amount set by the grantee. LSC is not requiring the grantee to set limits mirroring LSC Program Letter 16-3, but to use the program letter as a guideline to set limits that best fit the grantee's operations.

of its intent to terminate before the renewal date. This practice can unintentionally obligate unsuspecting organizations to continue working with a non-performing contractor. Accordingly, automatic contract renewals should largely be eliminated from consumer contracts.

This guidance also elaborates upon periodically re-competing recurring purchases and long-standing contracts as follows:

Although it is beneficial to establish long-lasting business relationships with reliable vendors, it is important to periodically re-compete recurring purchases and long-standing contracts every 3-5 years to ensure that best value is obtained.

For high-dollar value contracts, competition helps ensure the best value for the organization. Procurement fraud, corruption, and anti-competitiveness are all too common. While the risk can never be fully eliminated, organizations can implement controls to reduce the likelihood of occurrence.

We recommend that the Executive Director:

Recommendation 27: Establish and implement the updated procurement policies per the LSC Program Letter 16-3, Procurement Policy Drafting 101: Guidance for LSC Grantees (attachment), including a requirement for periodically re-competing recurring purchases and long-standing contracts.

General Ledger and Financial Controls

The OIG reviewed the grantee's written policies and procedures over general ledger and financial controls to determine if the grantee has adequate internal controls and adheres to LSC's regulations and guidelines. From LAFLA's three bank accounts (operating, building justice center, and pledge accumulation), we used random and judgmental sampling to select 18 bank reconciliation records within the audit scope period to obtain an understanding of the grantee's processes and policies over bank reconciliations. We also selected a month of petty cash and cash receipts records to test LAFLA's cash receipts and petty cash practices.

We found that LAFLA mostly had adequate controls in place over cash receipts and petty cash. However, we found lack of segregation of duties within the accounting system and inadequate processes over bank reconciliations.

LAFLA Has a Lack of Segregation of Duties within Its Accounting System

LAFLA's accounting system's user access rights are not set up according to employees' role or job function. LAFLA's Finance Organization Chart reflects that the Finance Department consists of seven staff members, ranging from the CFO to Grant Accountant. In our interview with LAFLA management, we found that all Finance staff have the same user access rights within the accounting system and the ability to enter and post a journal entry. However, only the CFO and the DFM have administrative rights and can adjust the Finance staff's user access.

LAFLA management explained that they rely on procedural policies to facilitate segregation of duties and that user access rights are not restricted according to job title to provide flexibility when staff are being trained, on vacation, and for turnover. They plan to modify access rights according to job function through a modernized user interface in their accounting software.

LAFLA not having segregation of duties within the accounting system based on role and job function does not adhere to the criteria as stipulated below.

The LSC Accounting Guide, § 3-4.3, states:

Accounting duties should be segregated to ensure that no individual simultaneously has both the physical control and the record-keeping responsibility for any asset, including, 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 regarding user access rights may result in a staff member initiating and recording a transaction without review from a second independent individual to determine its accuracy.

We recommend that the Executive Director:

Recommendation 28: Update user access rights to the accounting system so that accounting staff have access based on their roles, responsibilities, and only as needed.

LAFLA Has Inadequate Processes Over Bank Reconciliations

We requested a total of 18 bank statements within the audit scope period and their associated reconciliation records. However, LAFLA did not provide five of 18 requested bank reconciliation records. Therefore, we were unable to determine whether the bank reconciliations were performed for these five months.

For the 13 bank reconciliations provided, we noted that 11 were performed timely. However, we identified two bank reconciliations that were performed late. For example, the bank statement from September 2021 was not reconciled until February 2022 (five months later); and the bank statement from January 2022 was not reconciled until May 2022 (four months later).

We also identified checks outstanding for more than 120 days from LAFLA’s operating account. See Figure 7.

Figure 7: Outstanding Checks Greater than 120 Days

Month	Number of Outstanding Checks Greater than 120 Days	Total Dollar Amount of Outstanding Checks Greater than 120 Days
February 2020	22	\$3,786
July 2020	45	\$9,486
September 2020	43	\$9,536
February 2021	10	\$7,303
September 2021	23	\$13,354
January 2022	4	\$45,720

LAFLA management attributed the checks outstanding more than 120 days as well as the untimely and missing bank reconciliations to staff turnover and competing priorities.

LAFLA's inadequate processes over the bank reconciliation process did not adhere to the criteria as stipulated below:

LAFLA's Accounting Manual states: All bank accounts shall be reconciled to the general ledger monthly. It also states that checks outstanding more than 120 days are to be voided.

The LSC Accounting Guide, § 3-5.2(d), states: Bank statements shall be reconciled monthly to the general ledger.

Additionally, the LSC Accounting Guide, Appendix VII(I)(7), advises that checks outstanding for over six months should be investigated and resolved.

Without proper reconciliation procedures, irregular activity and recording errors may not be detected on a timely basis. Failure to monitor and timely resolve outstanding checks may result in undetected fraudulent signatures, alterations of checks, or an inaccurate bank balance.

We recommend that the Executive Director:

Recommendation 29: Strengthen practices so that bank reconciliations are performed monthly, in accordance with the LSC Accounting Guide, and that those reconciliations are documented.

Recommendation 30: Enhance controls to ensure that checks outstanding for more than 120 days are investigated and resolved.

Disbursements

To evaluate the adequacy of LAFLA's controls over disbursements, we reviewed policies and procedures, conducted interviews, and performed testwork. We reviewed the grantee's check register for completeness and accuracy, including missing check numbers and voided checks. We judgmentally sampled 10 voided checks. In addition, we randomly selected 55 and judgmentally selected 35 disbursements from the check register. Our sample consisted of 71 vendors with a total of 90 disbursements within the audit scope period. The sampled disbursements totaled \$1,091,418, which represented 5.5 percent of LAFLA's total disbursements other than payroll. Of the total disbursements sampled, \$135,779 was charged to LSC.

During our review, we identified the following: a lack of supporting documentation for disbursements, inadequate internal controls over disbursement checks, and inconsistent date stamping of documents.

Some Disbursements Lacked Supporting Documentation

In our review of 90 disbursement transactions, we noted 10 transactions, comprised of employee training, membership dues, and other office administrative costs lacked supporting documentation, such as receipts or invoices. These 10 disbursements totaled \$30,882, of which, \$1,452, comprised solely of office supply purchases, was charged to LSC.

The grantee explained that the lack of receipts or invoices was due to staff turnover and documents still in paper form and not scanned.

LAFLA did not maintain adequate supporting documentation for disbursements as stipulated by the criteria below:

LAFLA's Accounting Manual states: All purchases should be supported by documentation.

The LSC Accounting Guide, § 3-5.4(a), states: "The receipt of goods and the accuracy of invoices should be verified and documented."

Without adequate supporting documentation, funds may be disbursed for goods or services not received, in advance of receipt, or in the wrong amount.

We recommend that the Executive Director:

Recommendation 31: Implement procedures departmentally to ensure that disbursements are not made without review of adequate documentation and verification of the receipt of the goods or services purchased.

LAFLA Has Inadequate Internal Controls Over Disbursement Checks

In our review of LAFLA's check register for the operating account, we identified 29 missing check numbers. Checks are disbursed in a sequential numerical order. The checks identified as missing were skipped over in the sequence and were not documented in the check register.

In addition, we reviewed 10 voided checks to determine whether they were properly marked, filed (if not lost), or processed for stop payment (if lost). Of the 10 voided checks, LAFLA provided five that were properly marked and kept on file. However, they could not locate the other five.

The grantee stated that missing checks typically result from human errors during printing and that those checks are defaced and discarded. They also stated that an explanation for the missing check is recorded in their accounting system. They also stated that the missing documentation was due to staff turnover in the Finance Department.

LAFLA's internal controls over maintaining documentation of missing or voided did not adhere to the criteria as stipulated below:

LAFLA's Accounting Manual states: an Accounting Clerk files all canceled checks in numeric order. All voided checks are also kept in numeric order and defaced with "VOID" in bold letters on the voided check.

Additionally, the LSC Accounting Guide, Appendix VII, provides guidance regarding control procedures for disbursements, which include defacing voided checks, updating the general ledger to indicate the check was voided, and retaining and filing the voided check. It also provides that recipients establish an appropriate system for filing checks, check copies, non-check disbursements, and supporting documents in a manner where appropriate staff can readily locate them.

Failure to adequately account for all checks can result in improper use of funds.

We recommend that the Executive Director:

Recommendation 32: Strengthen controls so that the finance staff follow the written policies, and that voided checks are defaced, recorded appropriately in the accounting system, and filed.

LAFLA Did Not Maintain Adequate Documentation Over Receipt and Payment of Disbursements

LAFLA did not ensure that it maintained adequate documentation over invoice receipt and payment of disbursements. For example, the invoices or supporting documentation for 32 of 80 disbursements were not date stamped or accompanied by an email to indicate timing of receipt by

the Finance Department. In addition, the supporting documentation for 78 of 80 disbursements were not marked or stamped as paid.

The grantee stated most invoices are received via email and email history is now used to track disbursements.

The grantee's tracking practice over invoice receipt and payment of disbursements did not adhere to the criteria as stipulated below:

LAFLA's Accounting Manual, states:

Invoices can be received at each of LAFLA's offices as either standard hard copy invoices or electronic invoices via email. All staff are instructed to forward invoices, check requests, and purchase orders to Accounts Payable, via email. Hard copies of all invoices or check request forms are date stamped to indicate timing of receipt by Finance. After the checks have been signed by two authorized check signers, they are returned to the Accounting Clerk for processing via standard mail. The Accounting Clerk date-stamps all supporting documentation as documentation of payment date.

Additionally, the LSC Accounting Guide, § 3-5.4(a), provides the following guidance:

The receipt of goods and accuracy of invoices should be verified and documented. Documents should be marked paid or otherwise canceled to avoid duplicate payment. The check number and pay date should also be noted on the invoice or other supporting documentation.

Failure to properly track when invoices are received and when payments are made may result in duplicate payments and other errors in disbursing funds.

We recommend that the Executive Director:

Recommendation 33: Strengthen controls to ensure that invoices and disbursements are appropriately tracked with documentation in a reliable manner.

Client Trust Funds

We performed a review of LAFLA's policies and procedures related to their client trust account¹⁸. To determine whether adequate controls exist, we performed both random and judgmental methodologies in selecting our sample of six bank statements for our testwork. In addition, we reviewed deposit transactions from two of the six statements. LAFLA maintained individual client trust ledgers and the bank reconciliation records were adequately reviewed and approved. However, there were untimely bank reconciliations.

We identified client trust activity for two months: September 2020 and October 2021. We verified that the grantee maintained individual client trust ledgers. Additionally, we confirmed that the disbursements from the client trust account were adequately supported and could be traced to the individual client ledger and general ledger. All six reconciliations were performed, however, four were not performed timely.

Bank Reconciliations Were Not Performed Timely

We reviewed six records of bank reconciliations performed for the client trust account within the audit scope period. Four reconciliations were performed late, with the most significant being 50 and 106 days late in October 2021 and January 2022, respectively.

The grantee indicated that staff turnover and a small Finance Department were the cause of the late reconciliations.

LAFLA did not perform bank reconciliations in accordance with the guidance below:

LAFLA's Accounting Manual states: Once the Staff Accountant receives the bank statement from the Executive Director, the Staff Accountant will reconcile the client trust ledger account to the bank statement within ten days of receipt of the bank statement.

The LSC Accounting Guide, § 3-5.7(c), states: "The total of the individual client funds held should be reconciled to the general ledger bank account balance and general ledger liability balance on a monthly basis."

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

¹⁸ Client trust accounts are used for funds received from or on behalf of a client. LSC requires a separate escrow bank account be opened and designated solely for client trust funds. LAFLA maintains one client trust account for the receipt of these funds.

We recommend that the Executive Director:

Recommendation 34: Strengthen procedures to ensure that client trust bank reconciliations and associated individual client trust ledgers are reconciled monthly and timely.

Payroll

In our review of the grantee's written payroll policies and procedures, we found the grantee's Accounting Manual is adequate and adheres to LSC regulations. For our testwork, we judgmentally sampled 10 of 286 employees to determine whether salary adjustments were appropriately approved and adequately documented. Of those 10 employees selected, we judgmentally sampled nine to determine whether the approved salary adjustments were reflected in payroll registers from three pay periods.

Based on our review, the grantee's internal controls were mostly adequate and adhered to LSC regulations and guidelines. However, of the 10 employees selected, the grantee did not maintain documentation of salary adjustments in the personnel files for two employees in 2021 and four employees in 2022.

Salary Change Forms Were Not Maintained on File

The Board approved salary increases to all staff (union and non-union) at the beginning of the year of 2021 and an acceleration of the Union salary scale in January 2022. We compared salary adjustments from the record to the Salary Change Form(s)¹⁹ for the nine employees we judgmentally sampled. As a result, we found that Salary Change Forms were not maintained on-file for two employees in 2021 and four employees in 2022.

LAFLA did not provide an explanation. However, they acknowledged that the Salary Change Forms were not in the employees' personnel files.

LAFLA did not follow their own written policies and procedures or adhere to LSC policies over maintaining documentation of salary changes in personnel files as stipulated below:

LAFLA's Accounting Manual, states: Each employee shall have a personnel file which includes documentation concerning job assignment, application and authorization, reclassification of job assignment, salary rate and changes in salary rate, and termination date of employment. All employee records shall be kept confidential and maintained in a locked file by HR.

The LSC Accounting Guide, § 3.5.5(a), states: "Each employee shall have a payroll/personnel file which includes, among other things, documentation concerning appointments, position reclassifications, salary information, evaluations, promotions, and terminations."

¹⁹ LAFLA uses Employee Status Change Form (Salary Change Form) to record and file new hire, rehire, promotion, salary change, leave, transfer, resignation, termination, and other employee status or pay changes.

In addition, the LSC Accounting Guide, Appendix II, requires documentation to be maintained to support individual gross earnings. Wage or salary authorizations and/or employee contracts should be documented in each employee's payroll file.

Inadequate records may result in an employee receiving unauthorized payments.

We recommend that the Executive Director:

Recommendation 35: Implement procedures to ensure salary adjustments and authorizations are maintained in the employees' personnel files and corroborate the information maintained by both the Finance Department and HR Department within a prescribed number of days or months after any salary change.

OIG Evaluation of Grantee Management Comments

On November 11, 2023, LAFLA provided responses to the OIG's Draft Report. Of the 35 recommendations, LAFLA management agreed with 31 recommendations, partially agreed with two recommendations, and disagreed with two recommendations.

Specifically, LAFLA disagreed with Recommendations 4 and 10. LAFLA disagreed with Recommendation 4 on the basis that it implies the LSLR benefit was overpaid and with Recommendation 10 due to the characterization of the finding. LAFLA's responses are included in their entirety in Appendix III.

The OIG considers the proposed actions to Recommendations 1-3, 5, 7-9, 11, 13-24, and 26-35 as responsive; and considers the comments to Recommendations 6, 10, 12, and 25 as partially responsive. Although LAFLA disagreed with Recommendation 10, they provided a response that suggests they will update their policies and procedures. These 34 recommendations will remain open until the OIG receives the following items:

- **Recommendation 1 and 2** will remain open until the OIG receives updated manuals and enhanced procedures for the LSLR approval, review, and documentation process.
- **Recommendation 3** will remain open until the OIG receives the updated CBA incorporating language that clarifies the reimbursable amount limits.
- **Recommendation 5** will remain open until the OIG receives evidence of a formal LSLR eligibility policy from LAFLA's non-union employee handbook, which covers non-union staff as well as special circumstances.
- **Recommendation 6** will remain open until OIG receives records showing general ledger reconciliation with the LSLR tracking spreadsheet for the period of January 2024 through March 2024.
- **Recommendation 7 and 8** will remain open until an updated Accounting Manual is received, including procedures for periodically reconciling the LSLR tracking spreadsheet with the accounting records as well as procedures for requesting/approving Vacation Loans.
- **Recommendation 9** will remain open until the OIG receives evidence of review performed over all outstanding Vacation Loans ensuring that the files are complete with request, proof of expense and approval.
- **Recommendation 10** will remain open until the OIG receives evidence of updated procedures over coding Vacation Loans to LSC.
- **Recommendation 11** will remain open until the OIG receives updated Accounting Manual policies detailing procedures for maintaining a log of outstanding loans, including

recording, reconciling, and accounting for loan repayments, in the general ledger or subsidiary ledgers.

- **Recommendation 12** will remain open until the OIG receives evidence of regular reconciliations of loan repayments from payroll with the general ledger for the period of January 2024 through March 2024.
- **Recommendation 13** will remain open until the OIG receives documentation on updated policies and procedures for cell phone stipends issued to non-LAFLA and non-attorney employees.
- **Recommendation 14** will remain open until LAFLA provides evidence of enhanced credit card procedures, requiring documentation, statements, receipts, and invoices for credit card purchase to be maintained on file.
- **Recommendation 15** will remain open until LAFLA provides evidence that credit card and store card statements are being reviewed and signed by the Executive Director as of November 2023.
- **Recommendation 16** will remain open until the OIG receives evidence of the Board's review and approval, documented by signature and date, of the Executive Director's credit card expenditures for the period of January 2024 through May 2024.
- **Recommendation 17** will remain open until LAFLA provides a finalized credit card user agreement form as well as evidence that those forms are being signed by all credit cardholders and centrally filed.
- **Recommendation 18** will remain open until LAFLA provides the OIG with documentation of recommended updates to the credit card sections of LAFLA's Accounting Manual.
- **Recommendations 19, 20 and 21** will remain open until LAFLA provides documentation of both a physical inventory plan and enhanced policies and procedures for tracking non-capitalization IT equipment and property.
- **Recommendation 22** will remain open until LAFLA provides updated written policies and procedures governing the use of the company vehicle.
- **Recommendation 23** will remain open until LAFLA provides updated written policies and procedures incorporating the recommended changes to LAFLA's contract procurement process.
- **Recommendation 24** will remain open until LAFLA provides evidence of improved contract documentation procedures, and evidence that adequate steps were taken to review the active contracts outlined in this report and file the proper documentation.

- **Recommendations 25 and 26** will remain open until LAFLA provides updated written procurement policies and procedures from their Accounting Manual which clarify the definition of "reasonable" and establish clear approval procedures for purchasing.
- **Recommendation 27** will remain open until LAFLA provides written policies that facilitate competition over recurring expenses and long-standing contracts.
- **Recommendation 28** will remain open until LAFLA provides documented evidence of updated user access rights in their accounting system.
- **Recommendation 29** will remain open until LAFLA provides documented evidence of timely bank reconciliations during the period of January 2024 through May 2024.
- **Recommendation 30** will remain open until LAFLA provides documented evidence of updated outstanding check policies and procedures.
- **Recommendations 31, 32 and 33** will remain open until LAFLA provides documented evidence of enhanced policies and procedures over the receipt, review, and approval of disbursements and voided checks.
- **Recommendation 34** will remain open until LAFLA provides documented evidence of updated client trust policies and procedures.
- **Recommendation 35** will remain open until LAFLA provides documentation of enhanced policies and procedures over document retention of salary agreements.

The OIG considers LAFLA's comments for Recommendation 4 as unresponsive. The grantee disagreed with the recommendation and provided a response that suggests they will not proceed with verifying the completeness of loan applications, supporting documentation, and repayment amounts. This recommendation relates to reimbursements not being paid according to policy, resulting in overpayments to 17 employees in the amount of \$23,737. This recommendation will be referred to LSC Management for resolution.

Additionally, the OIG is referring the total amount of LSLRs recorded by LAFLA within the audit scope as questioned costs totaling \$217,461, to LSC Management for further review. We are referring the total amount because:

- we were not able to the total loan payments on the general ledger to LAFLA's recordkeeping for the loan reimbursements; and
- we were not able to confirm whether the amount allocated to LSC of \$47,351 was accurate.

The questioned costs include overpayment amounts to 17 employees totaling \$23,737 and payments made to an ineligible employee totaling \$8,799.

LAFLA disagrees with Recommendation 4 and the questioned costs proceedings on the basis that it implies the LSLR benefit was overpaid. However, we are proceeding with the referral to LSC Management because the costs violate LSC regulation 45 C.F.R. § 1630.5(a), subsections (2), (6), and (8).

Appendix I: Scope & Methodology

To achieve the audit objective, we identified, reviewed, evaluated, and assessed internal controls for 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
- CARES Act Funds

We evaluated select financial and administrative areas and assessed the related controls in place during the period of January 1, 2020, through February 28, 2022, to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations.

To understand the internal control framework and LAFLA's processes over the areas listed above, we interviewed grantee management and staff, and we reviewed the grantee's policies and procedures, including manuals, guidelines, memoranda, and directives setting forth current grantee practices.

To review and evaluate internal controls, we designed and performed audit procedures to obtain sufficient and appropriate evidence to support our conclusions over the design, implementation, and operating effectiveness of controls significant to the audit objective. We also conducted testwork which included inquiries, observation, and the examination of source documents to determine whether the grantee's internal control system and policies and procedures complied with the guidelines in the LSC Accounting Guide.

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. We assessed the internal control components and underlying principles that we determined to be significant to the audit objective. However, because we limited our review 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, we considered the necessity of evaluating information systems controls. We determined that information system controls were significant to the audit objective. Therefore, we evaluated information system controls related to specific grantee operations, oversight, program expenditures, and fiscal accountability. Our internal control review included performing audit procedures related to information system controls to obtain sufficient, appropriate evidence to support and document our findings and conclusions on the implementation and effectiveness of LAFLA's internal controls. We determined that no additional audit procedures relating to information systems controls were needed.

Per government auditing standards, we assessed the reliability of LAFLA's computer-generated data in the twelve areas reviewed as listed above. We reviewed selected system controls and supporting documentation, and conducted interviews, logical tests, and testwork including tracing and vouching amounts to and from source documents.

We found the data was reasonably complete, accurate, consistent, and was sufficiently reliable for the purposes of this audit. However, we found the data for employee benefits partially reliable. We performed completeness and accuracy data testing by comparing and tracing the accounting (general ledger) and payroll (ADP) records related to Vacation Loans. The recorded repayment amounts in the general ledger do not match the payroll deductions from ADP and there is no indication for which employee the repayments were made. Therefore, we were not able to rely on repayment records in the general ledger. However, we were able to trace the loans disbursed including the payroll deductions from ADP to the general ledger. As a result, we were able to rely on the completeness and accuracy of the ADP records.

In addition, we performed completeness and accuracy data testing by comparing and tracing the general ledger and ADP records related to LSLR. We noted that the total LSLR issued within the audit scope period per the general ledger record did not match the total reimbursements in the LSLR tracking spreadsheet. The Finance Department uses the LSLR tracking spreadsheet to record and account for the reimbursements for each participating employee. For instance, the total LSLR recorded in the general ledger was \$138,457, while the tracking spreadsheet's total equaled \$217,461; a difference of \$79,004. Therefore, we were not able to rely on law school reimbursements recorded in the general ledger. However, we were able to trace the loan reimbursements from ADP for each employee selected for review to the law school tracking spreadsheet. Therefore, we were able to rely on the law school reimbursements from ADP.

We also assessed significance and audit risk. We determined that internal controls in the select financial and operational areas mentioned above were significant to the audit objective. Audit risk is the possibility that audit findings, conclusions, recommendations, or assurance may be improper or incomplete because of factors such as insufficient or inappropriate evidence, the 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.

To select our samples for testing, we used a non-statistical methodology. We determined this methodology was appropriate based on the audit scope and objective as well as the audit timeline and the nature of the grantee. Our results cannot be projected to the audit universe, and we do not intend to make inferences about the populations from which we derived our samples.

To assess the appropriateness of expenditures and the existence of adequate supporting documentation, we reviewed disbursements made by LAFLA for transactions other than credit cards and payroll. We randomly selected 55 disbursements, and judgmentally selected 35 additional disbursements for testwork, totaling \$1,091,418. The selected transactions included high-dollar value transactions, potentially LSC unallowable transactions, atypical vendors, as well as routine disbursements for employee reimbursements and office supplies, among others. The sample represented approximately five percent disbursed for transactions other than credit cards and payroll during the period January 1, 2020, through February 28, 2022. To assess the appropriateness of expenditures, we reviewed invoices and supporting documentation, then traced the expenditures to the general ledger. We evaluated the appropriateness of those expenditures based on applicable laws and regulations as well as LSC grant agreements and policy guidance.

In addition to the disbursements, we requested 18 months of statements from the grantee's three credit and store cards. From the 14 credit card statements received, we tested 93 total transactions with a total value of \$35,612. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

To evaluate and assess internal controls over employee benefits, payroll, contracting, client trust funds, management reporting and budgeting, general ledger and financial controls, derivative income as well as CARES Act Funds, we interviewed 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, we discussed the process with grantee management and reviewed the grantee's cost allocation policies and procedures. We reviewed selected transactions to determine if the amounts allocated conformed to the documented allocation process and if the transactions were properly allocated in the allocation spreadsheet and the general ledger.

We reviewed controls over property purchases, inventory, disposal, and recording by examining current grantee practices, and compared them to LSC regulations and guidance in the LSC Accounting Guide.

We conducted fieldwork from April 18, 2022, to October 6, 2022. We performed the audit remotely due to health concerns related to the COVID-19 pandemic. Both the grantee and LSC Management electronically submitted documentation for review, and we conducted interviews via remote video conferencing. Documents reviewed pertained to the audit scope period January 1, 2020, through February 28, 2022.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objective. We believe the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

Appendix II: Assessment of Internal Control Components and Principles

Figure 8: Internal Control Principles Significant to the Audit Objective²⁰

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.	1	Demonstrate Commitment to Integrity and Ethical Values
		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
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	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

²⁰ The numbers correspond with the principles outlined in the [Standards for Internal Control in the Federal Government](#) (GAO-14-704G). While we considered principles 1, 4-9, 16 and 17 during the audit, we determined that these principles were not significant to the audit objective.

Internal Control Component		Principle	
Name	Overview	Number	Description
		12	Management Should Implement Control Activities Through Policies
Information and Communication	<p>Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives.</p> <p>Entity management needs access to relevant and reliable communication related to internal as well as external events.</p>	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



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November 10, 2023

Roxanne Caruso
Assistant Inspector General for Audit
Office of the Inspector General
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington DC 20007-3358

Dear Ms. Caruso,

The Legal Aid Foundation of Los Angeles (LAFLA) received the Office of Inspector General (OIG) Draft Report on the results of your audit on Selected Internal Controls at LAFLA - Recipient No. 805080 for the period of January 1, 2020 – February 2022. We appreciate your determination that LAFLA adequately designed and properly implemented internal controls for grantee operations and oversight in the areas of derivative income and grantee use of CARES Act funds and the recommendation that LAFLA needs to strengthen its practices or formalize, in writing, internal controls. Our Responses to the recommendations as well as the form LSC OIG provided are attached.

We take your recommendations very seriously and we will review and strengthen our internal controls as recommended. Will begin implementing them immediately with changes to the accounting manual and policies and procedures in Human Resources.

If you have any questions or need additional information, please contact me or Vincent Rodriguez, Chief Financial Office. We thank your team for their professionalism and dedication in working with the LAFLA finance team over the past year and half of this audit.

Sincerely,

A handwritten signature in blue ink that reads "Silvia Argueta".

Silvia Argueta
Executive Director

Enclosure

Other Office Locations:

East Los Angeles Office, 5228 Whittier Blvd., Los Angeles, CA 90022; 213-640-3883
Long Beach Office, 601 Pacific Ave., Long Beach, CA 90802; 562-435-3501
Santa Monica Office, 1640 5th St., Suite 124, Santa Monica, CA 90401; 310-899-6200
South Los Angeles Office, 7000 S. Broadway, Los Angeles, CA 90003; 213-640-3950

LAFLA Responses to Recommendations

Recommendation 1: Update the relevant manuals to establish an approval process requiring:

- (1) specific pertinent documentation prior to approving LSLRs and
- (2) a signature and date from the personnel assigned to review and approve the LSLR Applications.

LAFLA response to Recommendation 1: LAFLA agrees with this recommendation. LAFLA will update the relevant manuals as recommended.

Recommendation 2: Implement enhanced processes to ensure that the LSLR files are complete, including but not limited to the Application and Supporting Documentation, for all employees currently receiving reimbursements.

LAFLA response to Recommendation 2:

LAFLA agrees with this recommendation. LAFLA will revisit internal protocols over LSLR review, approval, required documentation on file and make enhancements as recommended.

Recommendation 3: Update the language on the CBA so that the guidance is clear as to whether the amount to be reimbursed is the required monthly loan amount not to exceed \$500 per month, as long as the accumulated payments are not higher than the loan amount.

LAFLA response to Recommendation 3:

LAFLA agrees with this recommendation. LAFLA will update language within CBA in consultation with the Union as we cannot make unilateral changes to the CBA and LSLR application for consistency. However, the intent of the program, since inception, is to reimburse actual loan payments made up to \$500 per quarter - not required minimum payments.

Recommendation 4: Review LSLR transactions from January 1, 2020 through February 28, 2022, including but not limited to obtaining complete Applications, verifying the minimum loan repayment amounts based on Supporting Documentation, and verifying reimbursement amounts paid. Recover, if any, confirmed overpayments to date.

LAFLA response to Recommendation 4:

LAFLA disagrees with this recommendation as we believe it is based on the idea that this benefit was being overpaid. However, LAFLA agrees that we need to update the verbiage within all relevant documentation to be consistent with actual and intended structure of this benefit.

Recommendation 5: Implement a new policy to adequately document any deviation from CBA § 7.7.2.

LAFLA response to Recommendation 5:

LAFLA partially agrees with this recommendation. The CBA only applies to Union staff and therefore would not cover the Director of HR. LAFLA agrees that a formal policy should be documented for non-Union staff and under special circumstance within LAFLA's non-union employee handbook.

Recommendation 6: Reconcile the general ledger record with the LSLR tracking spreadsheet to ensure accurate accounting and recording of law school reimbursements.

LAFLA response to Recommendation 6:

LAFLA agrees with this recommendation. LAFLA will revisit approach to recording LSLR disbursements to facilitate a cleaner audit trail from LSLR spreadsheet to GL.

Recommendation 7: Update the Accounting Manual to include procedures for periodically reconciling the LSLR tracking spreadsheet and accounting records.

LAFLA response to Recommendation 7:

LAFLA agrees with the recommendation and will update the accounting manual accordingly.

Recommendation 8: Formalize and document the process for requesting and approving Vacation Loans.

LAFLA response to Recommendation 8:

LAFLA agrees with the recommendation and will update the accounting manual, and if necessary the employee handbook, accordingly.

Recommendation 9: Review all documentation, including but not limited to written requests, to ensure that proof of expense as well as approvals, from the Executive Director or Designee, are obtained for all active Vacation Loans.

LAFLA response to Recommendation 9:

LAFLA agrees with the recommendation and will audit completeness of documentation for all outstanding vacation loans.

Recommendation 10: Implement written policies and procedures, as stipulated in the Accounting Manual, that "No loans shall be charged to LSC" and reallocate Vacation Loans to funding sources other than LSC.

LAFLA response to Recommendation 10:

LAFLA disagrees with the characterization of this finding. Specifically, LAFLA did not charge vacation loans to LSC - no chargeable expense is incurred when issuing such loans. Instead, due to legacy procedures, the fund code used when recording this activity to balance sheet accounts defaulted to LSC. LAFLA agrees to update this process, as well as update documented policies and procedures as necessary.

Recommendation 11: Update the Accounting Manual to sufficiently detail procedures for maintaining a log of outstanding loans, including recording, reconciling, and accounting for loan repayments in the general ledger or subsidiary ledgers.

LAFLA response to Recommendation 11:

LAFLA agrees with the recommendation and will update the accounting manual accordingly.

Recommendation 12: Reconcile the loan repayments deducted from payroll to each employee's Vacation Loan to ensure accurate accounting records.

LAFLA response to Recommendation 12:

LAFLA agrees with the recommendation and will implement regular reconciliations of loan repayments from payroll with the General Ledger.

Recommendation 13: Update manuals, including but not limited to the Accounting Manual, Employee Handbook, and CBA to include policies and procedures for cell phone stipends issued to non-LAFLA and non-attorney employees.

LAFLA response to Recommendation 13:

LAFLA agrees with the recommendation and will update the accounting manual, employee handbook, and will update accordingly. The updates to the CBA after discussion with the Union as any changes to the CBA cannot be made unilaterally.

Recommendation 14: Enhance procedures to ensure that supporting documentation, including statements, receipts, and invoices, are maintained on file to support all credit card purchases.

LAFLA response to Recommendation 14:

LAFLA agrees with the recommendation and will enhance procedures and oversight over credit card purchases accordingly.

Recommendation 15: Review and sign each credit and store card statement per the Accounting Manual, documenting validity of the transactions.

LAFLA response to Recommendation 15:

LAFLA agrees with the recommendation and will enhance procedures and oversight over credit card purchases accordingly.

Recommendation 16: Work with the Board President to enhance or implement procedures to ensure that the Board President reviews, approves, and adequately documents their approval of the Executive Director's credit card expenditures with a signature and date.

LAFLA response to Recommendation 16:

LAFLA agrees with the recommendation and will enhance procedures and oversight over credit card purchases accordingly.

Recommendation 17: Finalize and implement the credit card user agreement form, and centrally file signed forms.

LAFLA response to Recommendation 17:

LAFLA agrees with the recommendation and will enhance procedures and oversight over credit card purchases accordingly.

Recommendation 18: Update the Accounting Manual to include the following:

- A policy requiring managerial approval for credit card charges above a certain dollar threshold; and
- A policy prohibiting cash advances and ATM withdrawals.

LAFLA response to Recommendation 18:

LAFLA agrees with the recommendation and will update the accounting manual accordingly.

Recommendation 19: Develop a plan and schedule for a physical inventory to be conducted every two years and ensure documentation supporting the physical inventory is maintained.

LAFLA response to Recommendation 19:

LAFLA agrees with the recommendation and will develop a plan and schedule physical inventory to be conducted every two years.

Recommendation 20: Implement controls to ensure that IT equipment or properties that fall below the capitalization threshold and may contain sensitive information are tracked and accounted for.

LAFLA response to Recommendation 20:

LAFLA agrees with the recommendation and will enhance policies and procedures to better track and account for non-capitalizable IT equipment/property.

Recommendation 21: Review the grantee's current practices and procedures over recording equipment and laptop purchases which may fall below the capitalization threshold and incorporate those practices in the grantee's Accounting Manual.

LAFLA response to Recommendation 21:

LAFLA agrees with the recommendation and will enhance policies and procedures to better track and account for non-capitalizable IT equipment/property.

Recommendation 22: Create written policies over the use of the company vehicle, to include but not limited to policies over:

- personnel authorized to use the company vehicle,
- mileage log usage, and
- documentation to be maintained when using the vehicle, such as fuel receipts.

LAFLA response to Recommendation 22:

LAFLA agrees with the recommendation and will enhance documented policies and procedures over use of company vehicle. We do note that the company vehicle is not operational and has not been used in more than one year.

Recommendation 23: Develop a formal and comprehensive contract procurement process including "needs" requests, approvals, required documents, and documentation of any deviation from the procurement process to be kept on file that is centrally located and readily accessible.

LAFLA response to Recommendation 23:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to improve documentation completeness and retention over contracted services.

Recommendation 24: Review the following active contracts to obtain and file the required documentation as follows:

- Contract for the Architect Design Service.

- Documentation of "needs" requests and approvals for all 12 contracts¹⁶.
- Current contracts for three outdated contracts.
- Documentation of bids or justification, if the contract was sole-sourced, for the 11 contracts (All contracts, except for the Architect Design Service contract) missing this documentation.
- Documentation of final approvals for the 11 contracts (All contracts, except for the Architect Design Service contract) missing this documentation.
- Documentation providing justification or rationale for the payments made to the three vendors (Janitorial, Graphic Design, and Landscaping Service contracts) that were inconsistent with contract terms.
- Documentation reflecting that payment transactions for two contracts (Wi-Fi/Hot Spot and Staffing service contracts) within the audit scope period were made in accordance with the contract.
- Documentation that Wi-Fi/Hot Spot Service contract and invoice are addressed to LAFLA.

LAFLA response to Recommendation 24:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to improve documentation completeness and retention over contracted services.

Recommendation 25: Update the procurement policies similar to the Procurement Policy Drafting 101: Guidance for LSC Grantees including but not limited to the following:

- A requirement of certification of best value or price comparison for procurements \$X¹⁷ to \$X.
- A requirement of request for quotes and evaluation sheet for procurements \$X to \$X.
- A requirement of request for proposals, evaluation plan, team, and sheet for procurements \$X+.
- A requirement for periodically re-competing recurring purchases and long-standing contracts.

LAFLA response to Recommendation 25:

LAFLA partially agrees with this recommendation. LAFLA's accounting manual states "Micro-purchases may be awarded without soliciting competitive quotations if LAFLA considers the price reasonable." OIG appears to interpret this statement as our policy "does not require competition." We disagree. Our policy refers to formal procurement methods such as sealed bids or competitive proposals, specifically, not being required at this procurement level - it doesn't say no element of competition is required. However,

LAFLA agrees that the term "reasonable" can be better defined, including reference to informal price comparisons.

Recommendation 26: Update the Micro-Purchases section of the Accounting Manual to clearly state that the employees authorized to incur costs on behalf of LAFLA require approvals prior to purchasing.

LAFLA response to Recommendation 26:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to facilitate separately, and clearly delineate, approvals for purchasing/procurement versus approvals to pay invoices.

Recommendation 27: Establish and implement the updated procurement policies per the LSC Program Letter 16-3, Procurement Policy Drafting 101: Guidance for LSC Grantees (attachment), including a requirement for periodically re-competing recurring purchases and long-standing contracts.

LAFLA response to Recommendation 27:

LAFLA agrees with the recommendation and will enhance documented policies and procedures facilitate competition over recurring purchases/expenses and long-standing contracts.

Recommendation 28: Update user access rights to the accounting system so that accounting staff have access based on their roles, responsibilities, and only as needed.

LAFLA response to Recommendation 28:

LAFLA agrees with the recommendation and will update user access rights within the accounting system to better facilitate segregation of duties

Recommendation 29: Strengthen practices so that bank reconciliations are performed monthly, in accordance with the LSC Accounting Guide, and that those reconciliations are documented.

LAFLA response to Recommendation 29:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to ensure bank reconciliations are performed timely

Recommendation 30: Enhance controls to ensure that checks outstanding for more than 120 days are investigated and resolved.

LAFLA response to Recommendation 30:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to ensure timely review/resolution of stale dated checks.

Recommendation 31: Implement procedures departmentally to ensure that disbursements are not made without review of adequate documentation and verification of the receipt of the goods or services purchased.

LAFLA response to Recommendation 31:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to ensure sufficient documentation of receipt, review, and approval prior to creation of disbursements.

Recommendation 32: Strengthen controls so that the finance staff follow the written policies, and that voided checks are defaced, recorded appropriately in the accounting system, and filed.

LAFLA response to Recommendation 32:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to ensure voided checks are defaced and recorded in a consistent manner.

Recommendation 33: Strengthen controls to ensure that invoices and disbursements are appropriately tracked with documentation in a reliable manner.

LAFLA response to Recommendation 33:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to ensure sufficient documentation of receipt, review, and approval prior to creation of disbursements.

Recommendation 34: Strengthen procedures to ensure that client trust bank reconciliations and associated individual client trust ledgers are reconciled monthly and timely.

LAFLA response to Recommendation 34:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to ensure timely reconciliation of client trust account to client trust ledgers.

Recommendation 35: Implement procedures to ensure salary adjustments and authorizations are maintained in the employees' personnel files and corroborate the information maintained by both the Finance Department and HR Department within a prescribed number of days or months after any salary change.

LAFLA response to Recommendation 35:

LAFLA agrees with the recommendation and will enhance documented policies and procedures to ensure documentation of salary adjustments are sufficiently maintained.

Recommendation Tracking

Grantee Name:

RNO:

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 own 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 <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with this recommendation. Management will update the relevant manuals as recommended.
Recommendation 2	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with this recommendation. Management will revisit internal protocols over LSLR review, approval, required documentation on file and make enhancements as recommended.
Recommendation 3	Agree <input checked="" type="checkbox"/>	Management agrees with this recommendation. Management will update language within CBA and LSLR application for

	Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	consistency. However, the intent of the program, since inception, is to reimburse actual loan payments made up to \$500 per quarter - not required minimum payments.
Recommendation 4	Agree <input type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input checked="" type="checkbox"/>	Management disagrees with this recommendation as we believe it is based on the idea that this benefit was being overpaid. However, management agrees that we need to update the verbiage within all relevant documentation to be consistent with actual and intended structure of this benefit.
Recommendation 5	Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/>	Management partially agrees with this recommendation. The CBA only applies to Union staff and therefore would not cover the Director of HR. Management agrees that a formal policy should be documented for non-Union staff and under special circumstance within LAFLA's non-union employee handbook.
Recommendation 6	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with this recommendation. Management will revisit approach to recording LSLR disbursements to facilitate a cleaner audit trail from LSLR spreadsheet to GL.
Recommendation 7	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will update the accounting manual accordingly.
Recommendation 8	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will update the accounting manual, and if necessary, the employee handbook, accordingly.
Recommendation 9	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will audit completeness of documentation for all outstanding vacation loans.
Recommendation 10	Agree <input type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input checked="" type="checkbox"/>	Management disagrees with the characterization of this finding. Specifically, LAFLA did not charge vacation loans to LSC - no chargeable expense is incurred when issuing such loans. Instead, due to legacy procedures, the fund code used when recording this activity to balance sheet accounts defaulted to LSC. Management agrees to update this process, as well as update documented policies and procedures as necessary.
Recommendation 11	Agree <input checked="" type="checkbox"/>	Management agrees with the recommendation and will update the accounting manual accordingly.

	Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	
Recommendation 12	Agree <input type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will implement regular reconciliations of loan repayments from payroll with the GL.
Recommendation 13	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will update the accounting manual, employee handbook, and CBA accordingly.
Recommendation 14	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance procedures and oversight over credit card purchases accordingly.
Recommendation 15	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance procedures and oversight over credit card purchases accordingly.
Recommendation 16	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance procedures and oversight over credit card purchases accordingly.
Recommendation 17	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance procedures and oversight over credit card purchases accordingly.
Recommendation 18	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will update the accounting manual accordingly.
Recommendation 19	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will develop a plan and schedule physical inventory to be conducted every two years.

Recommendation 20	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance policies and procedures to better track and account for non-capitalizable IT equipment/property.
Recommendation 21	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance policies and procedures to better track and account for non-capitalizable IT equipment/property.
Recommendation 22	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures over use of company vehicle.
Recommendation 23	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to improve documentation completeness and retention over contracted services.
Recommendation 24	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to improve documentation completeness and retention over contracted services.
Recommendation 25	Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/>	Management partially agrees with this recommendation. LAFLA's accounting manual states "Micro-purchases may be awarded without soliciting competitive quotations if LAFLA considers the price reasonable." OIG appears to interpret this statement as our policy "does not require competition." We disagree. Our policy refers to formal procurement methods such as sealed bids or competitive proposals, specifically, not being required at this procurement level - it doesn't say no element of competition is required. However, management agrees that the term "reasonable" can be better defined, including reference to informal price comparisons.
Recommendation 26	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to facilitate separately, and clearly delineate, approvals for purchasing/procurement versus approvals to pay invoices.
Recommendation 27	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures facilitate

		competition over recurring purchases/expenses and long-standing contracts.
Recommendation 28	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will update user access rights within the accounting system to better facilitate segregation of duties.
Recommendation 29	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to ensure bank reconciliations are performed timely.
Recommendation 30	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to ensure timely review/resolution of stale dated checks.
Recommendation 31	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to ensure sufficient documentation of receipt, review, and approval prior to creation of disbursements.
Recommendation 32	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to ensure voided checks are defaced and recorded in a consistent manner.
Recommendation 33	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to ensure sufficient documentation of receipt, review, and approval prior to creation of disbursements.
Recommendation 34	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to ensure timely reconciliation of client trust account to client trust ledgers.
Recommendation 35	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Management agrees with the recommendation and will enhance documented policies and procedures to ensure documentation of salary adjustments are sufficiently maintained.

Name and Title

Silvia Argueta, Executive Director

Signature

Silvia Argueta
