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ADVISORY

TO: Executive Directors of LSC Programs
Board of Directors of LSC Programs

FROM: Jeffrey E. Schanz
Inspector General

DATE: September 23, 2020

SUBJECT: Compendium of Internal Control Audit Findings & Recommendations From Reports Issued October 1, 2017 through September 30, 2019

The purpose of this advisory is to summarize the findings and recommendations reported by the Office of Inspector General (OIG) of Legal Services Corporations (LSC) in internal control review audit reports issued from October 1, 2017 to September 30, 2019.

During this period, the OIG issued seven internal control audits containing 125 recommendations to improve internal controls at LSC grantees. Of the 125 recommendations, which in this report are categorized into 14 topics, the majority address issues pertaining to written policies and procedures, contracting, credit cards, general ledger and financial controls, and disbursements. The OIG also issued recommendations related to fixed assets, internal reporting and budgeting, cost allocation, derivative income, employee benefits, and segregation of duties, among other areas.

As with previous compendium reports, the majority of findings and recommendations during the current reporting period (October 1, 2017 to September 30, 2019) were issued for deficient written policies and procedures. The OIG continues to discover issues in the areas of contracting, disbursements, general ledger and financial controls, and fixed assets also remained consistent over the current compendium reporting period, while credit card findings emerged as more significant issues during this reporting period.

We encourage grantees to use this report as a tool to prevent future audit findings and comply with professional standards and applicable legal and regulatory requirements.

LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

COMPENDIUM OF INTERNAL CONTROL AUDIT FINDINGS & RECOMMENDATIONS FROM REPORTS ISSUED OCTOBER 1, 2017 THROUGH SEPTEMBER 30, 2019

Report No. AU 20-06

September 2020

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TABLE OF CONTENTS

INTRODUCTION

The purpose of this advisory is to summarize the findings and recommendations reported in internal control review audit reports issued October 1, 2017 to September 30, 2019, by the Office of Inspector General (OIG) of Legal Services Corporation (LSC). It also compares the number of findings and recommendations issued during the period to the Compendium Report issued by the OIG in August 2018, which summarized the findings and recommendations from audits issued October 1, 2015 to September 30, 2017 (refer to Exhibits 31 and 32).

In accordance with the Legal Services Corporation Accounting Guide for LSC Recipients (2010 Edition) (Accounting Guide), Chapter 3 – Internal Control/Fundamental Criteria of An Accounting and financial Reporting System – states an LSC grantee "…is required to establish and maintain adequate accounting records and internal control procedures."

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

From October 1, 2017 to September 30, 2019, the OIG issued 7 audit reports containing 125 recommendations to improve internal controls at LSC grantees. The recommendations are categorized into 14 topics; the majority of which address issues with written policies and procedures, credit cards, contracting, general ledger and financial controls, disbursements, and fixed assets. The OIG also issued recommendations related to an array of other internal control topics including cost allocation, internal reporting and budgeting, derivative income, employee benefits, segregation of duties, accounting system access, maintenance of master vendor lists, payroll, and financial reporting.

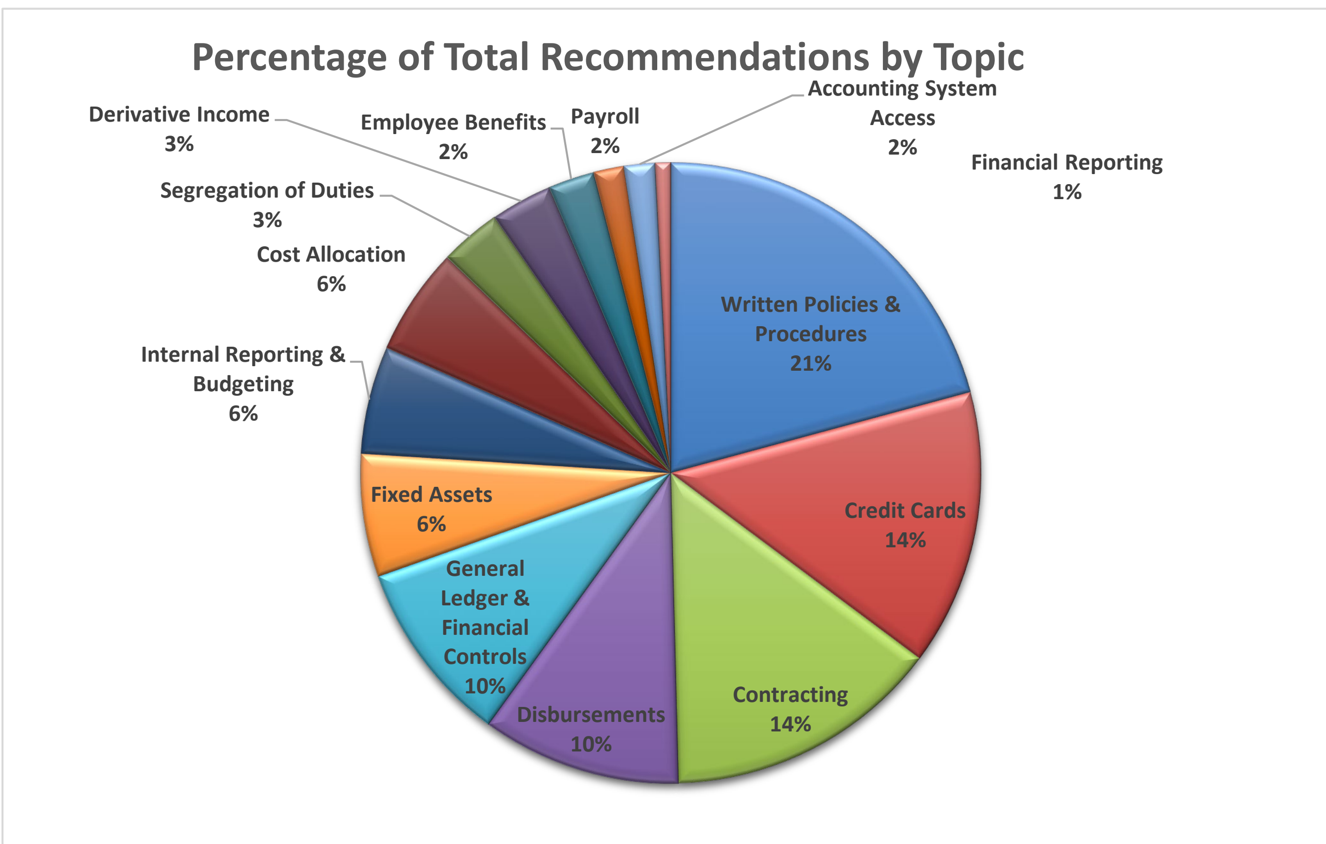
The following exhibits summarize the number of recommendations issued by the OIG from October 1, 2017 to September 30, 2019, by topic and the number of audit reports in which each topic appeared.[1] When applicable, exhibits may also include additional detail to describe the specific internal control topic or grantee process to which the audit recommendations were related.

[1] Each audit report represents a unique LSC grantee.

Exhibit 1: Summary of Recommendations by Topic

Finding/Recommendation Topic	Number of Recommendations	Percentage of Recommendations
Written Policies & Procedures	26	21%
Credit Cards	18	14%
Contracting	18	14%
Disbursements	13	10%
General Ledger & Financial Controls	12	10%
Fixed Assets	8	6%
Internal Reporting & Budgeting	7	6%
Cost Allocation	7	6%
Segregation of Duties	4	3%
Derivative Income	4	3%
Employee Benefits	3	2%
Payroll	2	2%
Accounting System Access	2	2%
Financial Reporting	1	1%
Grand Total	**125**	**100%**

Exhibit 2: Percentage of Total Recommendations by Topic



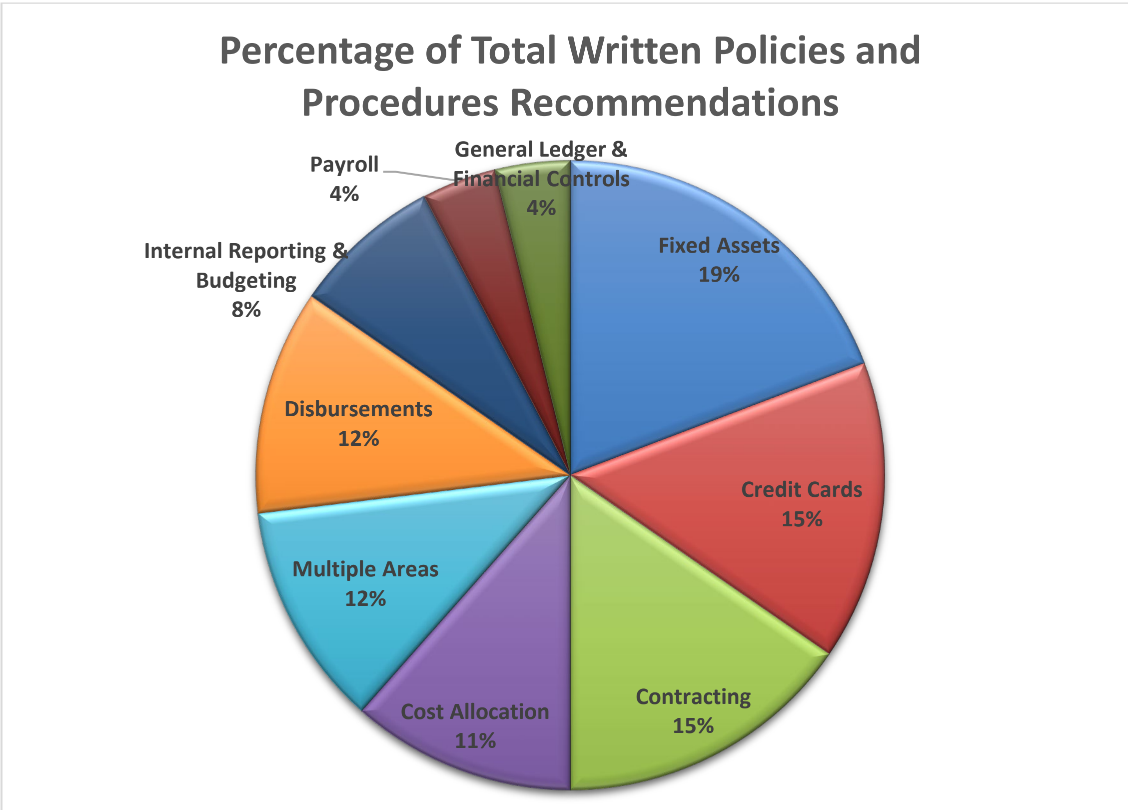
WRITTEN POLICIES AND PROCEDURES

During its internal control reviews, the OIG evaluates accounting and administrative manuals of the various grantees to determine whether written policies and procedures are adequate, or whether they need improvement. In the audit reports issued from October 1, 2017 to September 30, 2019, the OIG presented 26 recommendations to LSC grantees to develop or enhance their written policies and procedures. The majority of the recommendations were issued in the following areas: contracting, credit cards, cost allocation, disbursements, and fixed assets. (Refer to *Exhibit 3: Summary of Written Policies and Procedures Recommendations* for the complete list.)

Exhibit 3: Summary of Written Policies and Procedures Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Fixed Assets	5	5
Credit Cards	4	4
Contracting	4	4
Cost Allocation	3	3
Multiple Areas	3	3
Disbursements	3	3
Internal Reporting & Budgeting	2	2
Payroll	1	1
General Ledger & Financial Controls	1	1
Grand Total	**26**	

Exhibit 4: Percentage of Total Written Policies and Procedures Recommendations



<u>Fixed Assets</u>

The OIG issued five recommendations to update written policies and procedures for fixed assets. Generally, the OIG found that grantees had written policies for fixed assets in place that did not fully comply with the *Fundamental Criteria.* For example, during an audit, auditors discovered that a grantee did not have policies governing the disposal of fixed assets, including those that may contain sensitive information. Another grantee did not have a policy for tracking sensitive electronic items that were not capitalized.

To address the issues identified, the OIG recommended Executive Directors ensure that written policies and procedures for fixed assets include:

- the list of elements required by LSC's *Fundamental Criteria* for property records;
- procedures for tracking and disposing sensitive electronic items;
- procedures for physical inventory; and
- the dollar value for capitalization of fixed assets.

Contracting

Over the two-year period, the OIG issued four recommendations in response to weak contracting policies and procedures at four grantees. Commonly, auditors found that written policies and procedures for contracts did not include elements required by the *Fundamental Criteria* outlined in the LSC Accounting Guide such as identifying various contract types, dollar thresholds, and competition requirements.

To address the audit findings, the OIG recommended that Executive Directors ensure that written contracting policies and procedures include policies for the various types of contracts, such as those for consulting, personal services, and sole-sourced. In addition, the OIG recommended those policies include dollar thresholds and competition requirements as set forth in LSC's *Fundamental Criteria*.

Credit Cards

The OIG reported that written policies and practices relating to credit cards were not documented appropriately at four grantees. More specifically, the OIG found that grantees had inadequate policies concerning the management of credit cards, which included, documentation of issuance and receipt, purchase approvals, acceptable use, and reconciliations.

In one instance, the OIG discovered that a grantee's accounting manual did not have any policies regarding credit or debit cards. The LSC Accounting Guide, Section 3-4.5, Internal Control Structure – Establishment of an Accounting Manual, stipulates "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*." Written policies and procedures serve as a method to document the design of controls and adequately communicate them to staff.

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

- develop written policies and procedures related to debit and credit cards as outlined in the LSC Accounting Guide;
- establish written policies and procedures over credit card usage to include spending limits, approval policies, issuance and deactivation, and acceptable use; and
- establish policies governing automated teller machine (ATM) withdrawals and cash advances.

Cost Allocation

The OIG issued three recommendations to three LSC grantees to develop and strengthen written policies and procedures regarding cost allocation. In general, grantees' policies and procedures did not adequately state their cost allocation formula and methodology.

To address issues with written policies over cost allocation, the OIG recommended that Executive Directors ensure that allocation methodologies and formulas are documented in writing with sufficient detail for an auditor, LSC, OIG, and others to easily understand and follow.

Disbursements

The OIG issued three recommendations in three audit reports to improve written policies and procedures for disbursements. The recommendations mostly addressed a lack of policies pertaining to purchase approvals. For example, two grantees did not have written policies requiring prior approval from LSC for purchases exceeding $25,000 as required by LSC Regulation 45 CFR §1631.8(a).

To address the issues discovered during these audits, the OIG recommended Executive Directors:

- revise policies to include prior approval from LSC for purchases of $25,000 or more; and
- ensure that written policies and procedures for disbursements include procedures for all disbursement processes, including the purchase approval process for recurring bills, voiding checks, maintaining and safeguarding check stock, and obtaining the required number of check signatories.

Internal Reporting and Budgeting

The OIG reported that written policies and procedures relating to internal reporting and budgeting were inadequate for two grantees. Specifically, the OIG found that written policies and procedures for internal reporting and budgeting were mostly comparable to requirements outlined in LSC's *Fundamental Criteria*. However, there were discrepancies between the grantees' written policy and actual practice.

The OIG recommended that Executive Directors ensure that written policies and procedures related to internal reporting and budgeting comply with the *Fundamental Criteria* and are followed by staff.

Payroll

One grantee's practices for processing payroll seemed to be adequate and comparable to LSC's *Fundamental Criteria.* However, the grantee did not document their payroll processes or the specific functions of payroll staff.

The OIG recommended the Executive Director, ensure that written policies and procedures for payroll included procedures for supervisory review and approval of timesheets, reconciliation of salary payments to timesheet records, and authorization and justification for adjustments to pay rates.

General Ledger and Financial Controls

During the course of one grantee's audit, the OIG noted and issued a corresponding recommendation to address the absence of written policies and procedures for the accounting of outstanding checks and how the accounting system separated receipts and disbursements of LSC and non-LSC funds, as mandated by 45 CFR §1610.9. [2]

Multiple Areas

In three audits, the OIG found weaknesses with written policies and procedures in multiple areas for each grantee. For example, a grantee had inadequate written policies regarding, cost allocation, internal reporting and budgeting, disbursements, fixed assets, contracting, general ledger and financial controls, and credit cards.

In another audit, the OIG noted that the procedures and practices covering cost allocation, payroll, employee benefits, and internal reporting and budgeting were adequate, but needed to be enhanced. For example, the grantee's accounting manual did not provide a detailed written description of the cost allocation procedures as required by the Accounting Guide.

The OIG noted for another grantee that their written policies did not reflect the $25,000 threshold for expenditures requiring prior LSC approval. Furthermore, their policies did not reflect a clear segregation of duties over bank reconciliations.

To address findings concerning inadequate written policies and procedures across multiple areas, the OIG recommended Executive Directors ensure written policies and procedures are included within the grantee's Accounting Manual and that they adequately describe the processes and controls in sufficient detail, and are in accordance with LSC's Accounting Guide and *Fundamental Criteria*.

CREDIT CARDS

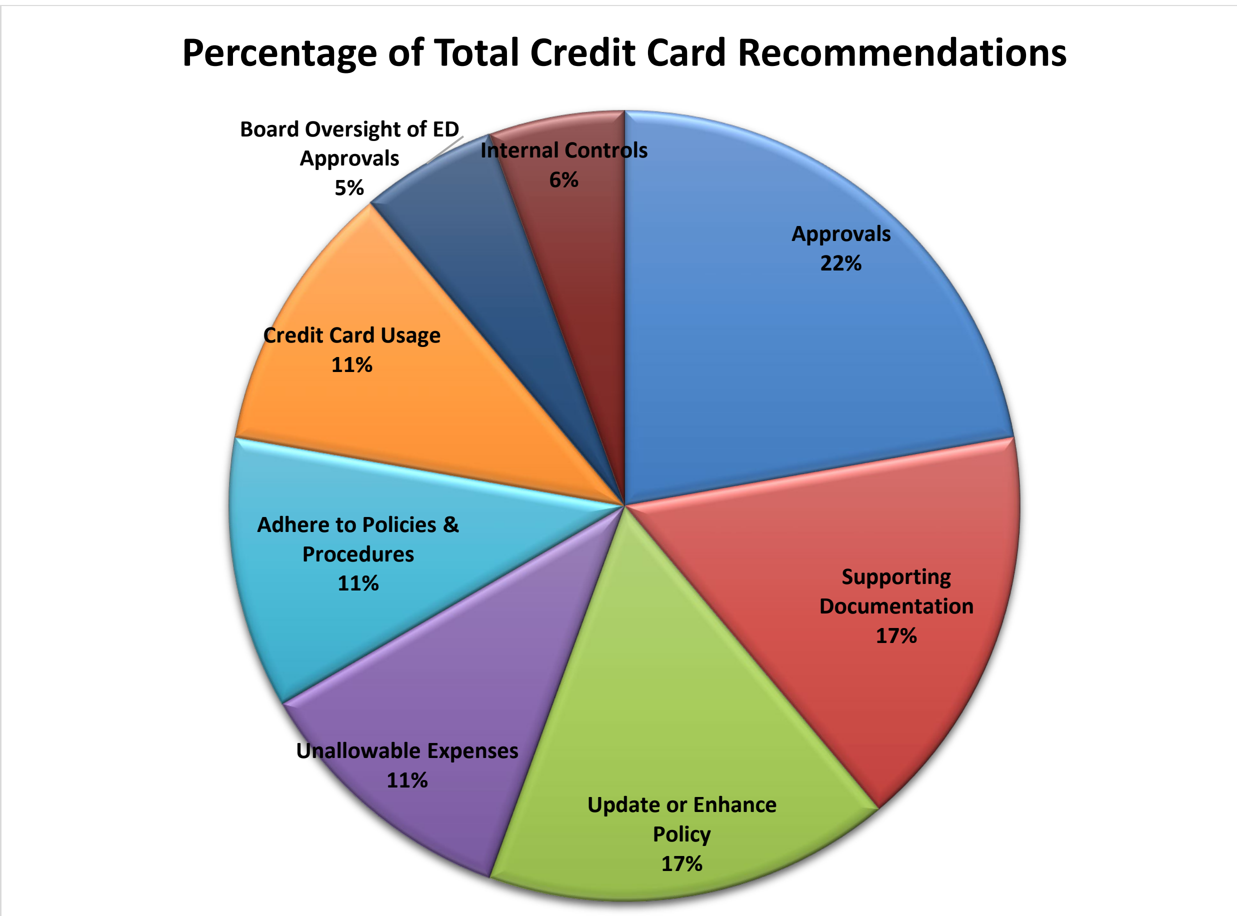
From October 1, 2017 to September 30, 2019, the OIG issued 18 recommendations regarding the usage of credit cards. The recommendations pertained to the approval of credit card transactions, supporting documentation for credit card usage, and unallowable expenses, among others.

[2] LSC Regulation 45 CFR Part 1610 is entitled, Use of Non-LSC Funds, Transfers of LSC Funds, Program Integrity. At the time of the OIG's reporting, Section 1610.9 was entitled, Accounting. LSC subsequently re-designated the Accounting as Section 1610.8. When revisions recently adopted by the LSC Board become effective, this section again will be designated as 1610.9.

Exhibit 5: Summary of Credit Card Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Approvals	4	4
Supporting Documentation	3	3
Update or Enhance Policy	3	3
Unallowable Expenses	2	2
Adhere to Policies & Procedures	2	2
Credit Card Usage	2	2
Board Oversight of ED Approvals	1	1
Internal Controls	1	1
Grand Total	**18**	

Exhibit 6: Percentage of Total Credit Card Recommendations



Approvals

The OIG found that various credit card transactions at four grantees were not appropriately approved as required by LSC's *Fundamental Criteria*. The OIG issued four recommendations to improve the review and approval process. During its audits, the OIG commonly found that credit card transactions did not have the appropriate pre-approvals and accompanying supporting documentation. The *Fundamental Criteria*, Section 3-5.4(a) states that approvals should be required at an appropriate level of management before a commitment of resources is made.

To address these findings, the OIG recommended that Executive Directors ensure approvals are well documented and made before resources are committed.

Supporting Documentation

During the period, the OIG issued three recommendations regarding grantees' lack of supporting documentation for credit card transactions. Examples of missing documentation included, receipts, payment vouchers, and vendor information for recurring charges.

The OIG recommended Executive Directors ensure adequate supporting documentation accompanies all credit card transactions and monthly statements.

Update or Enhance Policy

In three audit reports, the OIG found that grantee's policies for credit cards needed to be updated and/or enhanced. The OIG issued three recommendations to two grantees in this area. For one grantee, the audit team noted that their policy of a $5,000 daily spending limit was excessive and should be revaluated. Additionally, this grantee did not require debit cardholders to sign a written user agreement to avoid misuse of debit cards.

To address deficiencies in grantees' policies for credit cards the OIG recommended Executive Directors do the following:

- establish a written user agreement for credit and debit cardholders to avoid potential misuse; and
- reevaluate daily spending limits for cardholders to ensure the cap is reasonable given the business purpose.

Unallowable Expenses

The OIG issued two recommendations to two grantees regarding expenses unallowable by LSC. For example, in one instance, the OIG questioned costs totaling $1,067 , related to unallowable purchases of flowers, late fees, interest charges, and an unallowable membership fee. Title 45 CFR Part 1630 stipulates that expenditures by a recipient are allowable under the recipient's LSC grant only if the recipient can demonstrate that the cost was, among other things, reasonable and necessary for the performance of the grant and allocable to the grant.

The OIG recommended that Executive Directors do the following to address issues of unallowable expenses:

- ensure that unallowable costs are charged to funding sources other than LSC and are reflected within the accounting software to provide an audit trail; and
- ensure that staff are trained to recognize expenses unallowed by LSC and that LSC funds are not used to pay disallowed membership dues and fees.

Adhere to Policies and Procedures

In two instances, the OIG found that grantees had policies in place that were not followed by personnel. For example, the audit team noted that a grantee had policies in place for credit cardholders to read and sign an agreement. However, the Director of Finance and Administration, who was a credit card user, failed to sign the form.

Another grantee failed to adhere to its policy regarding access to a locked cabinet where credit cards were stored. According to the grantee's policies, only the Executive Director was authorized to remove credit cards from the cabinet, however, unauthorized credit card users also had access to the cabinet.

To address the aforementioned issues, the OIG recommended that Executive Directors ensure that employees abide by policies and procedures currently in place.

Credit Card Usage

During the period, the OIG issued two recommendations regarding credit card usage. It was found that grantees either did not have a credit card authorization form for designated cardholders or had cardholders who were not previously authorized. To address these findings, the OIG recommended Executive Directors require a signed acknowledgement agreement for each credit card user and ensure that only authorized individuals used credit cards.

Internal Controls

For one grantee the OIG found that there were weak internal controls in place for credit cards. The grantee failed to enforce its current policy regarding authorized credit card users and failed to accurately document transactions in its credit card log.

As a result, the OIG recommended the Executive Director enforce the grantee's current policy and ensure that authorized users record any credit card purchases in the credit card log.

Board Oversight of Executive Director Approvals

The audit team found issues pertaining board of director oversight. A grantee's policy indicated that the Executive Director shall obtain the Board of Director's authorization prior to the use of a credit card. Test work revealed that the Executive Director's transactions were adequately supported, but the policy regarding Board oversight was not followed. The OIG recommended the Executive Director ensure that the Board of Director's approval and/or oversight over credit card transactions is obtained and adequately documented.

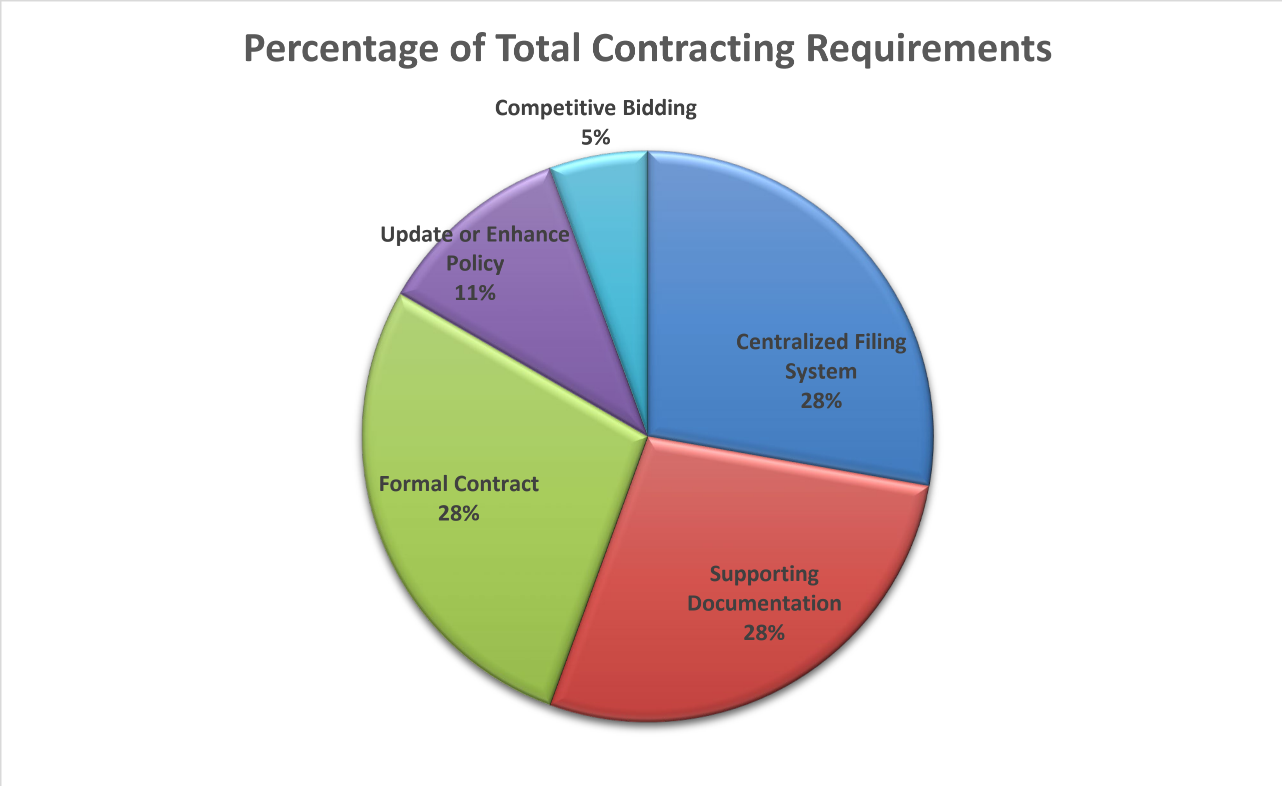
CONTRACTING

From October 1, 2017 to September 30, 2019, the OIG issued 18 recommendations related to contracting. These recommendations included but were not limited to ensuring contracts are sufficiently documented, that procurement processes adhere to LSC guidance, and that grantee management maintain centralized filing systems.

Exhibit 7: Summary of Contracting Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Centralized Filing System	5	5
Supporting Documentation	5	5
Formal Contract	5	4
Update or Enhance Policy	2	2
Competitive Bidding	1	1
Grand Total	**18**	

Exhibit 8: Percentage of Total Contracting Recommendations



Centralized Filing System

In five audit reports the OIG recommended grantees maintain a centralized filing system for all contracts. Specifically, the audit team found that contracts and related documentation were not filed in a central location and in several instances, grantees could not locate contract documentation when requested.

The OIG recommended that Executive Directors establish and maintain a centralized filing system for all contracts, that contains all pertinent documents related to the solicitation of bids, including receipt and evaluation of bids, sole-source justification, vendor selection, a signed contract or agreement, required approvals, and any agreed-upon modifications to a contract or agreement.

Supporting Documentation

During the period, the OIG found that five grantees lacked documentation to support executed contracts. We found that contracts did not have adequate supporting documentation to justify certain contract actions, contracts awarded without competition (i.e., sole-sourced contracts), or vendor selection.

The LSC *Fundamental Criteria*, 3-5.16, Contracting, provides that all documentation supporting competition and the process used for each contract action should be maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved, and maintained in a contract file. Proper documentation helps ensure the approved contract has followed all established procedures to ensure the best value for limited LSC funds.

To improve internal controls over contracting, the OIG recommended that Executive Directors ensure contracting procedures adhere to LSC's *Fundamental Criteria*, specifically that:

- the process for each contract action is fully documented in writing, such as sole-source justification and documentation of competition, if competitively bid; and
- contracts should receive the appropriate approvals and be documented as outlined in the grantee's accounting manuals.

Formal Contracts

Five recommendations related to formal contract agreements were issued to four grantees during the reporting period. For instance, a grantee established a confidentiality agreement for a volunteer to work within the finance department. However, the agreement did not explicitly state that the party was a volunteer, nor did it describe the work, time commitment or other relevant factors, such as training, equipment, and work location of the volunteer.

To address the findings related to formalizing contractual agreements, the OIG recommended that Executive Directors ensure that contract agreements are written, signed and maintained for business arrangements, and that they fully document the agreed-upon cost, payment, and other terms.

Update or Enhance Policy

The OIG issued two recommendations related to grantees updating or enhancing their policy and procedures pertaining to contracting. For example, one grantee had a sole-sourced contract that had the potential for conflict of interest. The grantee's Code of Conduct in Purchasing stated that no officer, board member, employee, or agent shall participate in the selection or administration of a contractor if a real or apparent conflict of interest would be involved. However, the grantee did not require employees to disclose, in writing the material facts of any potential conflicts of interest to management or the Board.

Consequently, the OIG recommended the Executive Director enhance its policies and procedures to include a requirement to disclose in writing the material facts of any potential conflicts of interest to upper management or the Board.

The audit team encountered an issue with another grantee's policies regarding the maintenance of contract records. In turn, the OIG recommended the Executive Director update its practices and policies to conform with its accounting manual as well as guidelines detailed in the LSC Accounting Guide.

Competitive Bidding

During the two-year compendium period, the OIG issued one recommendation to a grantee for competitive bidding in contracting. The audit team found that the grantee did not have adequate support for a sole-sourced contract for janitorial services. To address this issue, the OIG recommended the grantee do the following for the contract in question: consider the contract for bids, document the selection, including contract agreements, approvals, and if sole-sourced, document the justification.

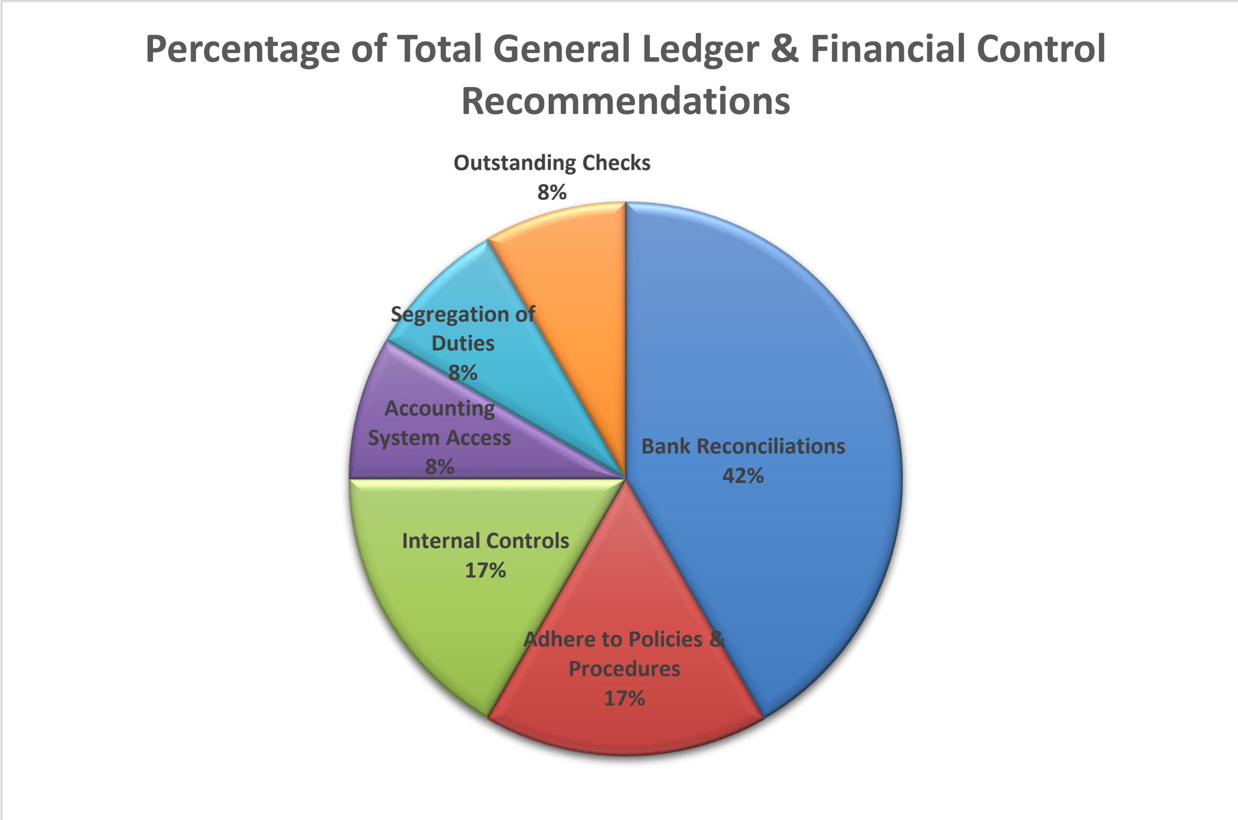
GENERAL LEDGER & FINANCIAL CONTROLS

From October 1, 2017 to September 30, 2019, the OIG issued 12 recommendations regarding general ledger and financial controls. The recommendations related to issues with bank reconciliations, adhering to policies and procedures, internal controls, accounting system access, segregation of duties, and outstanding checks.

Exhibit 9: Summary of General Ledger & Financial Control Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Bank Reconciliations	5	4
Adhere to Policies & Procedures	2	2
Internal Controls	2	2
Accounting System Access	1	1
Segregation of Duties	1	1
Outstanding Checks	1	1
Grand Total	**12**	

Exhibit 10: Percentage of Total General Ledger & Financial Control Recommendations



Bank Reconciliations

The OIG issued five recommendations to improve bank reconciliation procedures. During the OIG's review, auditors found bank reconciliations were not always performed in a timely manner, were missing approvals or dates, and were performed under an inadequate separation of duties.

LSC Accounting Guide, Section 3-5.2(d), Annual Financial Statements and Audit Reports, states that reconciliation of bank statements to the general ledger should be performed monthly by persons independent of cash keeping duties, check signing duties, and cash bookkeeping duties.

The OIG recommended that Executive Directors ensure that bank reconciliations are performed timely, reconciled to the general ledger, well documented, reviewed and approved by a responsible individual.

Adhere to Policies and Procedures

The OIG noted issues at two different grantees for not adhering to their policies and procedures pertaining to general ledgers and financial controls. Specifically, audit teams found that while grantees had policies for outstanding checks, those policies were not followed.

In response, the OIG recommended that grantee management ensure employees adhere to their written policies and procedures for voiding and managing outstanding checks.

Internal Controls

The OIG issued two recommendations to two different grantees to strengthen internal controls for general ledgers and financial controls. In one instance, the grantee had inadequate internal controls for maintaining petty cash. The petty cash fund was not reconciled on a consistent and periodic basis. Another grantee had terminated employees listed as authorized check signers.

To address the aforementioned issues, the OIG recommended that Executive Directors should:

- ensure that the petty cash account is periodically reconciled, then reviewed and approved by someone other than the person performing the reconciliation; and
- ensure that authorization to sign checks is promptly canceled when an employee leaves the organization.

Outstanding Checks

During the two-year period, the OIG found that one grantee did not resolve outstanding checks properly or within a reasonable timeframe. In some cases, the outstanding checks were over a year old.

The LSC Accounting Guide Appendix VII states that grantees investigate and resolve checks that are outstanding for over six months.

The OIG recommended that the Executive Director keep adequate documentation of checks and ensure that checks outstanding for more than six months were investigated and resolved.

Accounting System Access

The OIG noted at one grantee that there were weak internal controls over user and system access rights. For instance, auditors found that the Chief Financial Officer did not have an assigned unique username and password to access the accounting system and used the Accounting Operations Manager’s login credentials.

The LSC Accounting Guide, Chapter 3-6, mandates that passwords should not be shared to prevent fraud.

The OIG recommended the Executive Director ensure that each staff member is assigned a unique username and password to access the accounting system.

Segregation of Duties

During the period, the OIG issued one recommendation pertaining to a lack of segregation of duties for the general ledger and financial controls. It was noted that the Director of Finance oversaw her father, who served as a volunteer within the finance department, creating a potential conflict of interest. The volunteer performed bank reconciliations of accounts for which the director of finance was a debit cardholder.

To correct the aforementioned issue, the OIG recommended the Executive Director evaluate the duties assigned to the volunteer, the Director of Finance's father, ensure duties assigned to him do not cause a conflict of interest, appearance and likelihood of collusion, or a deficiency in segregation of duties. Additionally, the OIG stated that the Director of Finance's father should not perform bank reconciliations for bank accounts in which the Director of Finance is a debit cardholder.

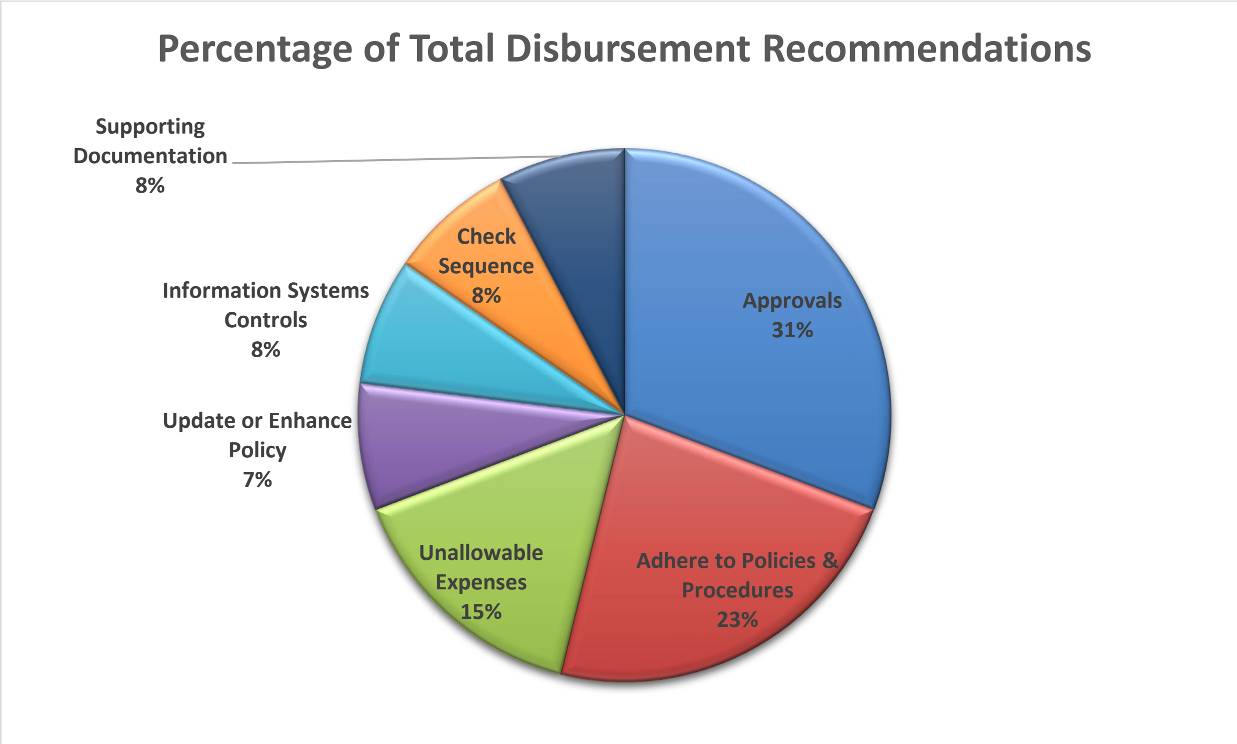
DISBURSEMENTS

In audits issued from October 1, 2017 to September 30, 2019, the OIG found that internal controls over disbursements needed strengthening. Over the two-year period, the OIG issued 13 recommendations related to disbursements. The issues related to approvals, adhering to policies and procedures, unallowable expenses, and supporting documentation for travel expenses, among others.

Exhibit 11: Summary of Disbursement Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Approvals	4	4
Adhere to Policies & Procedures	3	3
Unallowable Expenses	2	2
Update or Enhance Policy	1	1
Information Systems Controls	1	1
Check Sequence	1	1
Supporting Documentation	1	1
Grand Total	**13**	

Exhibit 12: Percentage of Total Disbursement Recommendations



<u>Approvals</u>

During the period, the OIG found that four grantees failed to follow adequate purchase approval processes. Common examples included purchases being approved after commitment of resources were made or not approved at all, and a lack of documentation of approvals.

Section 3-5.4 of the <u>Accounting Guide</u>, Cash Disbursements, states that approval should be required at an appropriate level of management before making a commitment of resources. It also states that criteria for purchases should be documented along with appropriate procedures.

In response to these findings, the OIG recommended that Executive Directors ensure:

- all incurred expenses are reviewed and approved before resources are committed; and
- all approvals are appropriately documented and retained in files.

<u>Adhere to Policies & Procedures</u>

At three different grantees, the OIG found that they did not adhere to their own written policies and procedures for disbursements. Auditors found that grantees had policies for check requests, payment vouchers, and stop payment requests that were not followed by personnel.

To address these issues, the OIG recommended that Executive Directors ensure employees follow established policies and procedures for check and payment processing.

Unallowable Expenses

The OIG noted instances of LSC funds used for unallowable expenses with two grantees.

In one audit, membership fees totaling $11,000 were charged to LSC. Grantee management explained that they treated membership fees as a pre-payment and initially charged them to LSC before re-allocating to other funding sources.

In the second audit, there were disbursements totaling $2,820 for trophies or other awards and bar dues paid to a nonprofit bar association not mandated as a condition to practice law. The OIG referred questioned costs totaling $2,820 for unallowable expenses to LSC management pursuant to 45 CFR Part 1630.

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

The OIG recommended Executive Directors adhere to LSC policies and regulations and ensure LSC funds are not used for unallowable purchases.

Update or Enhance Policies and Procedures

In one audit, the audit team found that a grantee's policies for purchases and expenses were lacking, and subsequently recommended the Executive Director streamline and enforce the grantee's policies and procedures regarding requests for expense/purchase forms to be completed by the requestor.

Information Systems Control

In another audit, it was noted that a grantee's accounting information system was not configured appropriately to detect duplicate checks. The OIG recommended the Executive Director ensure that the accounting information system is configured to detect duplicate check numbers and to generate warnings notifying the user of the anomaly.

Check Sequence

An audit revealed that a grantee did not issue checks sequentially. The Accounting Guide Appendix II stipulates that all disbursements must be made with prenumbered checks and used in numerical sequence. The OIG recommended the Executive Director should ensure that checks are issued sequentially and not postdated.

Supporting Documentation

At one grantee, the OIG found that disbursements were not supported with appropriate documentation. The OIG noted a lack of documentation for travel expenses, such as missing travel expense reports, travel authorization forms, invoices, and receipts. Additionally, a discrepancy was discovered with the mileage reported on the grantee's travel log and the related supporting documentation.

Section 3-5.4(c), Recordkeeping, of the Accounting Guide, states "an organized method shall be established to accumulate and file all documents relating to a particular disbursement for future reference." Inadequate documentation can result in unauthorized disbursements while proper documentation helps ensure that the approved purchases or contracts follow all established procedures.

The OIG recommended the Executive Director ensure that all documentation pertaining to travel, including miles claimed on monthly travel logs, original invoices, and receipts, are maintained with disbursement records. Additionally, electronic documentation should be printed out and maintained with the checks.

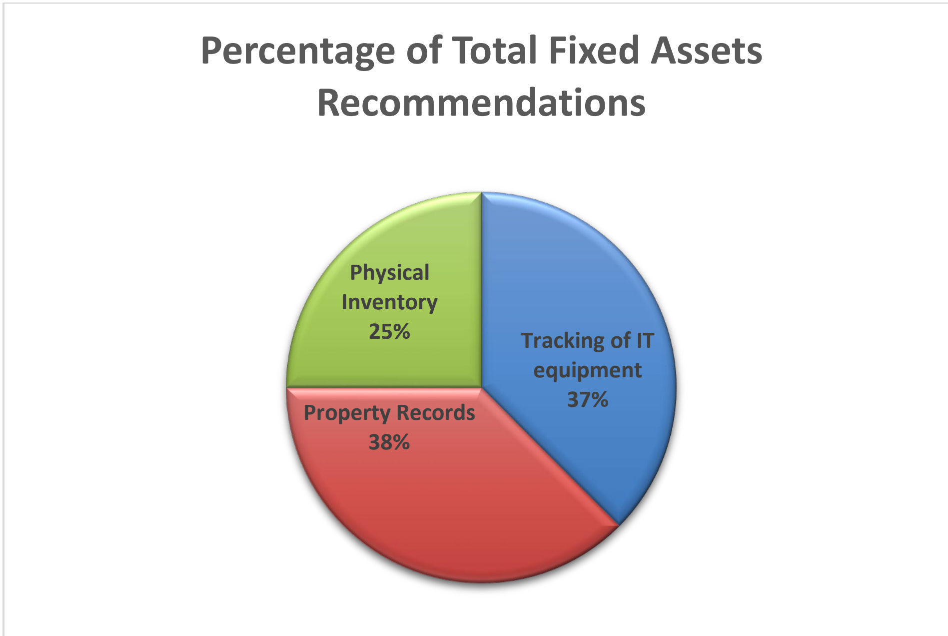
FIXED ASSETS

The OIG issued eight recommendations regarding fixed assets in audits issued from October 1, 2017 to September 30, 2019. Recommendations issued related to improving practices over tracking of information technology equipment, property records, and physical inventory.

Exhibit 13: Summary of Fixed Asset Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Tracking of IT equipment	3	2
Property Records	3	3
Physical Inventory	2	2
Grand Total	**8**	

Exhibit 14: Percentage of Total Fixed Asset Recommendations



Tracking of IT Equipment

The OIG issued three recommendations to two grantees to improve the management of information technology equipment. Audit teams found that records for IT equipment did not reconcile for the current period. Items were listed in a location that was not their actual physical location. Additionally, items were disposed, but were still listed on the grantees' inventory records.

The Accounting Guide, Section 2-2.4, Property, requires that grantees should be mindful of items that may contain sensitive information with values less than the capitalization threshold and the need to inventory these items and dispose of them appropriately.

To address these issues, the OIG recommended that Executive Directors:

- ensure all sensitive equipment is appropriately tracked and fixed asset records and the general ledger are adjusted for those assets that have been retired;
- ensure that all relevant devices are reconciled to the current IT equipment record; and
- ensure that electronic devices containing sensitive information are easily traceable with a location for each relevant item included in the IT equipment record.

Property Records

In three audits, the OIG found that property records were not up-to-date and were missing data required by LSC's *Fundamental Criteria.* Examples of missing data included check numbers, funding sources, serial numbers, and depreciation.

Moreover, the OIG found that grantees did not keep adequate details and records of assets. The *Fundamental Criteria,* Section 3-5.4 (c), lists all the elements that should be included in the property records, such as, description, date of acquisition, check number used to pay for the item(s), funding source, and depreciation, among others.

To address issues with inadequate property records, the OIG recommended that Executive Directors ensure that their property records comply with the information required by the Accounting Guide.

Physical Inventory

During the period, the OIG found that two grantees did not perform adequate physical inventories of capitalized assets. One grantee failed to have segregation of duties with the management of physical inventory and the journal entries documenting acquisitions, disposals, and depreciation of assets. The grantee had written policies stating that a Finance Manager was to review and approve the physical inventory; however, the policy was not followed.

In another audit the OIG found that the grantee did not maintain adequate inventory records. Records contained several errors, such as laptops being labeled as a server. Failure to maintain adequate property records may result in difficulty accounting for and tracking property.

The Accounting Guide, Section 2-2.4, stipulates that the grantee should be mindful of items that may contain sensitive information, items with values lower than $5,000, as well as the need to inventory these items and dispose of them appropriately. It also 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.

To address findings related to physical inventory of fixed assets, the OIG recommended Executive Directors ensure management performs and documents physical inventories of assets every two years as required by the Accounting Guide.

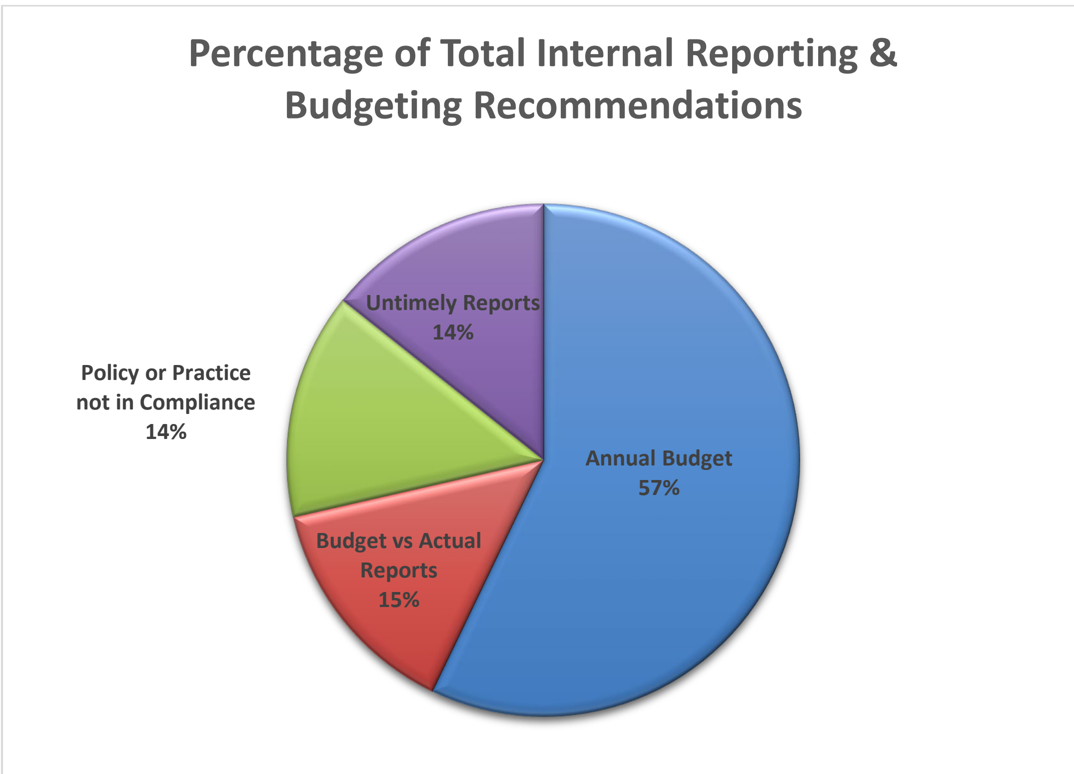
INTERNAL REPORTING & BUDGETING

The OIG issued seven recommendations pertaining to weak internal reporting and budgeting practices during the compendium period.

Exhibit 15: Summary of Internal Reporting & Budgeting Recommendations

Finding/Recommendation Type	Number of Recommendations	Number of Audit Reports
Annual Budget	4	3
Budget vs Actual Reports	1	1
Policy or Practice not in Compliance	1	1
Untimely Reports	1	1
Grand Total	**7**	

Exhibit 16: Percentage of Total Internal Reporting & Budgeting Recommendations



Common issues pertaining to budgeting included untimely management reports and budget projections not being built from cost center[3] or funding source. The LSC Accounting Guide, section 3-5.10, Budgeting, mandates the budget should be built from cost center function and “rolled-up” to create the total budget.

[3] A cost center is a department or other unit within an organization to which costs may be charged for accounting purposes.

The OIG recommended that Executive Directors ensure management reports, including annual budgets and "budget versus actuals" (comparative financial reports), are prepared timely and in accordance with LSC's *Fundamental Criteria*.

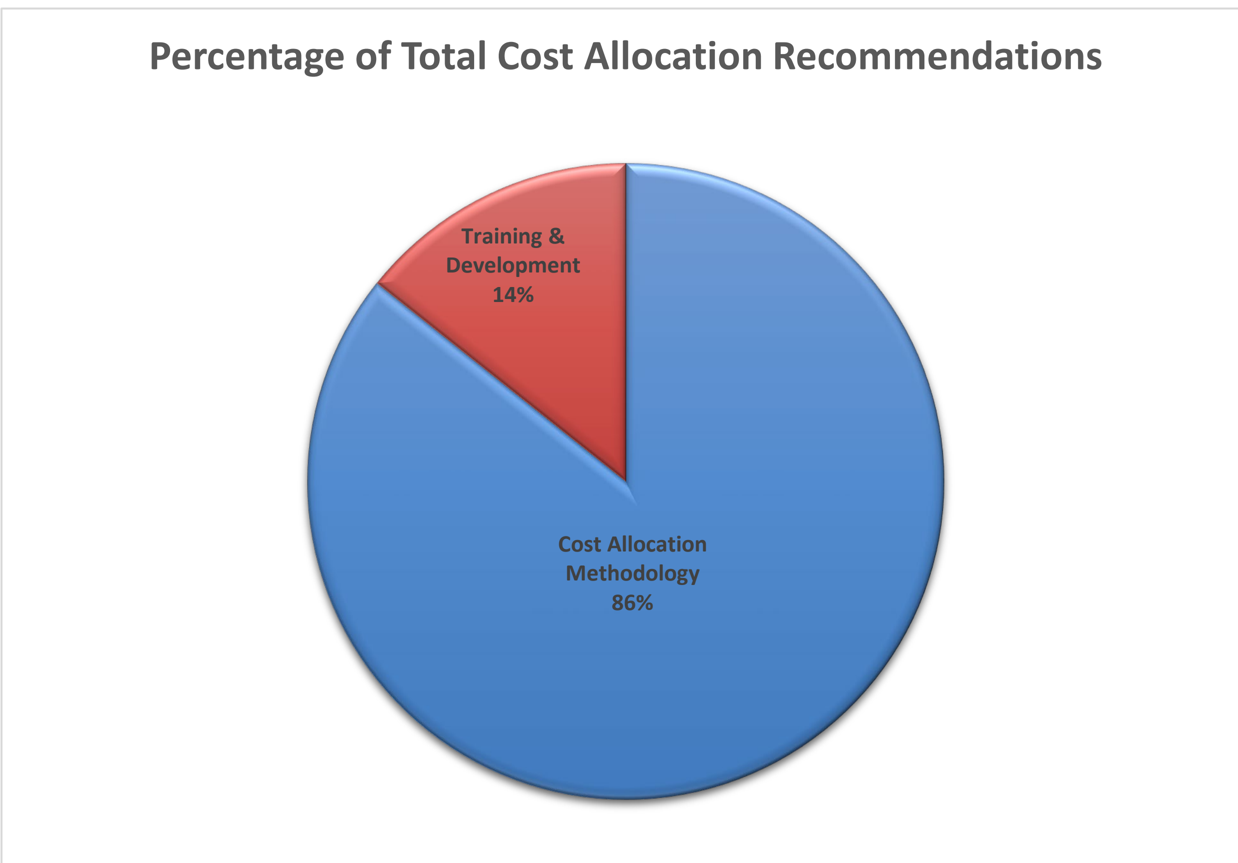
COST ALLOCATION

Over the two-year period, the OIG issued seven recommendations to five grantees related to cost allocation. Audit findings revealed that grantee's cost allocation procedures were not compliant with the Accounting Guide.

Exhibit 17: Summary of Cost Allocation Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Cost Allocation Methodology	6	6
Training & Development	1	1
Grand Total	**7**	

Exhibit 18: Percentage of Total Cost Allocation Recommendations



Cost Allocation Methodology

The OIG issued six recommendations to grantees pertaining to cost allocation methodologies. Auditors found that two grantees did not utilize the fund accounting capabilities of their accounting system. This resulted in the absence of an audit trail to identify funding sources for expenditures. Without an audit trail, it was difficult to determine or test whether allocations were performed accurately. Other grantee audits revealed that grantees did not follow the cost allocation methodologies outlined in their accounting manuals. For example, one site visit revealed that a grantee charged all attorney salaries to LSC, despite its written policy stating that attorney salaries were based on the number of hours recorded in the timekeeping system. Failure to follow established written cost allocation procedures could result in an unfair and inconsistent allocation across various funding sources.

To address findings regarding cost allocation methodologies, the OIG recommended that Executive Directors:

- ensure the grantee's accounting system is designed to accommodate fund, cost, or functional accounting, which would allow for allocation of expenses by funding source and provide an adequate audit trail; and
- ensure the practices used to allocate costs to funding sources are consistently applied and follow grantees' written policies.

Training & Development

The OIG noted that personnel within one grantee lacked the appropriate training to utilize its accounting system to perform cost allocations. During the audit, it was noted that cost allocations were performed in an excel spreadsheet rather than in the grantee's accounting system because of the employee's lack of experience with the software.

The OIG recommended the Executive Director ensure accounting staff were properly trained on the accounting system's capabilities.

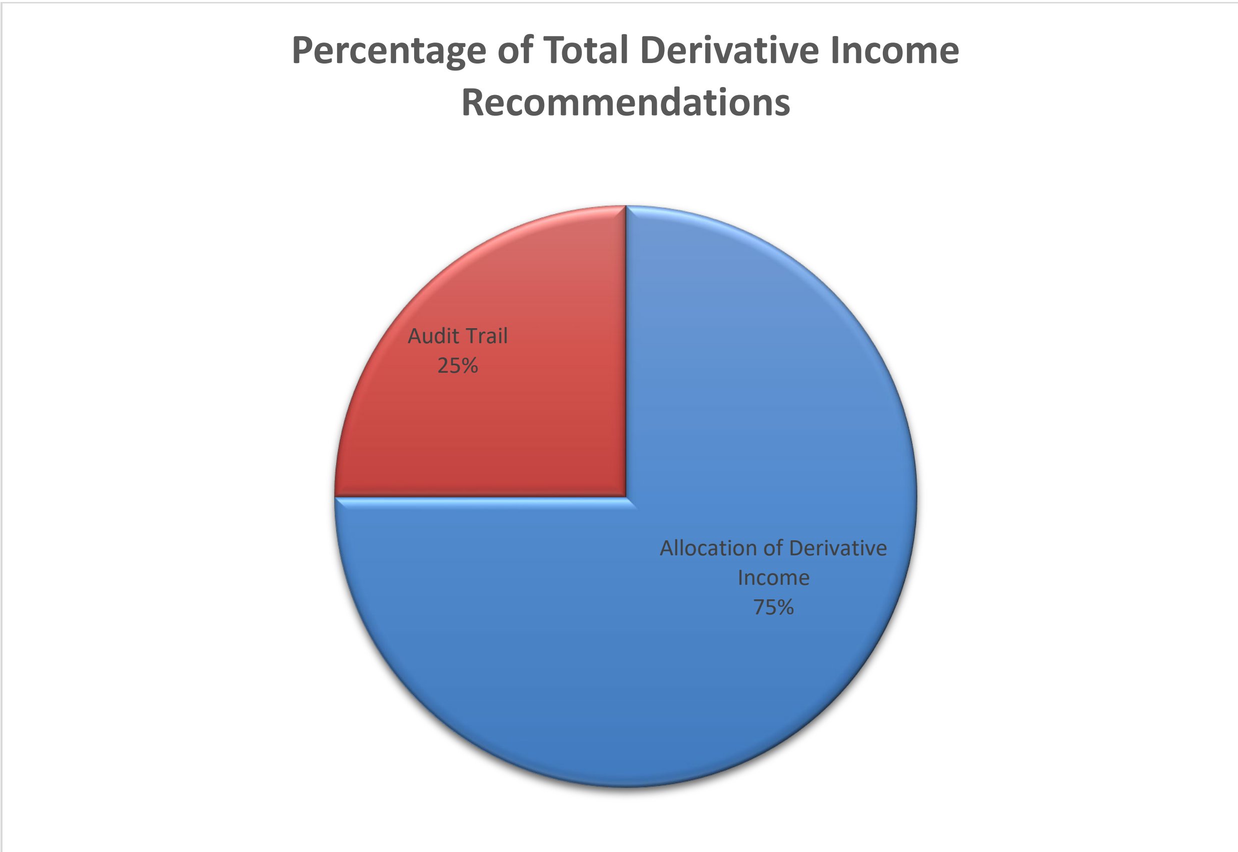
DERIVATIVE INCOME

From October 1, 2017 to September 30, 2019, the OIG issued four recommendations regarding derivative income. The recommendations addressed issues related to the allocation of attorneys' fees, as well as insufficient accounting records to provide an audit trail.

Exhibit 19: Summary of Derivative Income Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Allocation of Derivative Income	3	3
Audit Trail	1	1
Grand Total	**4**	

Exhibit 20: Percentage of Total Derivative Income Recommendations



<u>Allocation of Derivative Income</u>

At three grantees, the OIG found that the allocation methodologies used in practice were not in accordance with LSC regulations. The issues were largely concerning attorney fees. Auditors found that grantees did not adhere to their policies and procedures for allocating attorneys' fees. During this period, the OIG referred a total of $13,654 in questioned costs to LSC management for attorney fees that should have been allocated to LSC.

LSC Regulation 45 CFR §1609.4 provides that:

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

To address the issues of allocation of derivative income, the OIG recommended that Executive Directors:

- develop a written derivative income policy and attorneys' fees policy that mirror requirements contained in 45 CFR Part 1609; and
- ensure that attorneys' fees are allocated in accordance with the requirements specified in 45 CFR §1609.4.

Audit Trail

The OIG issued one recommendation for a grantee to improve its accounting system to allow an adequate audit trail. The grantee allocated derivate income and attorneys' fees in accordance with the grantee's policy. However, the OIG found that the grantee did not perform allocation journal entries. As a result, auditors were unable to trace and verify whether the derivative income and attorneys' fees were allocated in accordance with their policies.

To address this finding, the OIG recommended the Executive Director ensure the grantee's accounting system was fully utilized to provide an audit trail for allocating and recording derivative income and attorneys' fees.

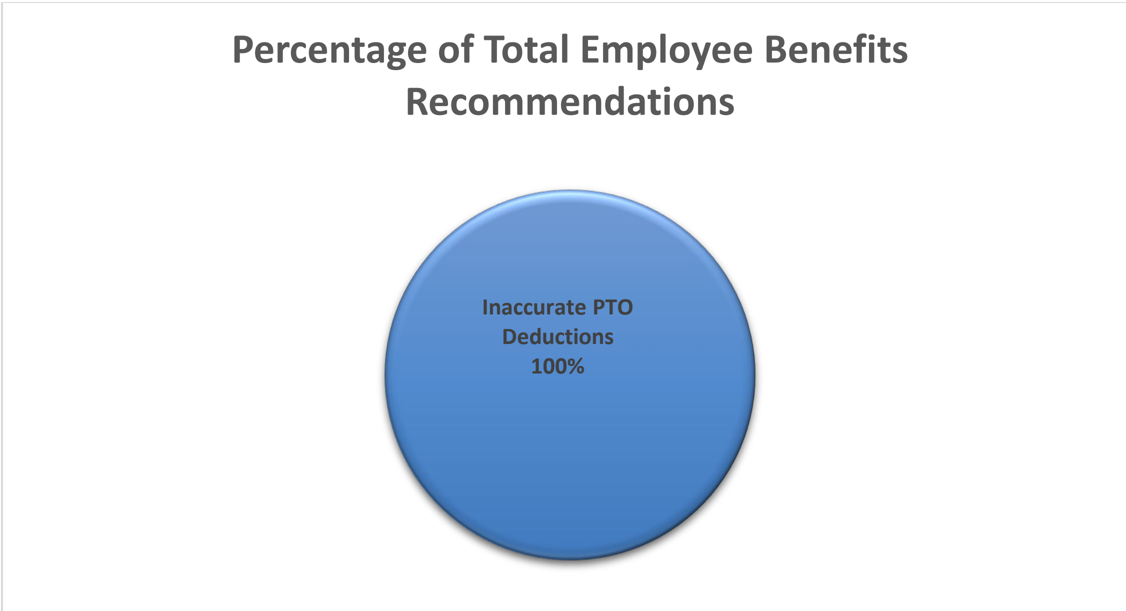
EMPLOYEE BENEFITS

The OIG issued three recommendations related to employee benefits at a grantee. The findings pertained to inaccurate paid time off (PTO) deductions because of untimely filling of accrued hours. This issue occurred as a result of the grantee hiring a contractor to conduct payroll who failed to accurately record PTO deductions. The OIG referred $3,419 in questioned costs pertaining to employee benefits to LSC management for review and action.

Exhibit 21: Summary of Employee Benefits Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Inaccurate PTO Deductions	3	1
Grand Total	**3**	

Exhibit 22: Percentage of Total Employee Benefits Recommendations



To remedy the findings, the OIG recommended the Executive Director deduct the hours identified by the OIG and any previous hours that may have been omitted and recover funds from terminated employees that may have been overpaid for unused PTO. Additionally, the OIG recommended the Executive Director implement controls that ensure PTO hours are deducted accurately and timely.

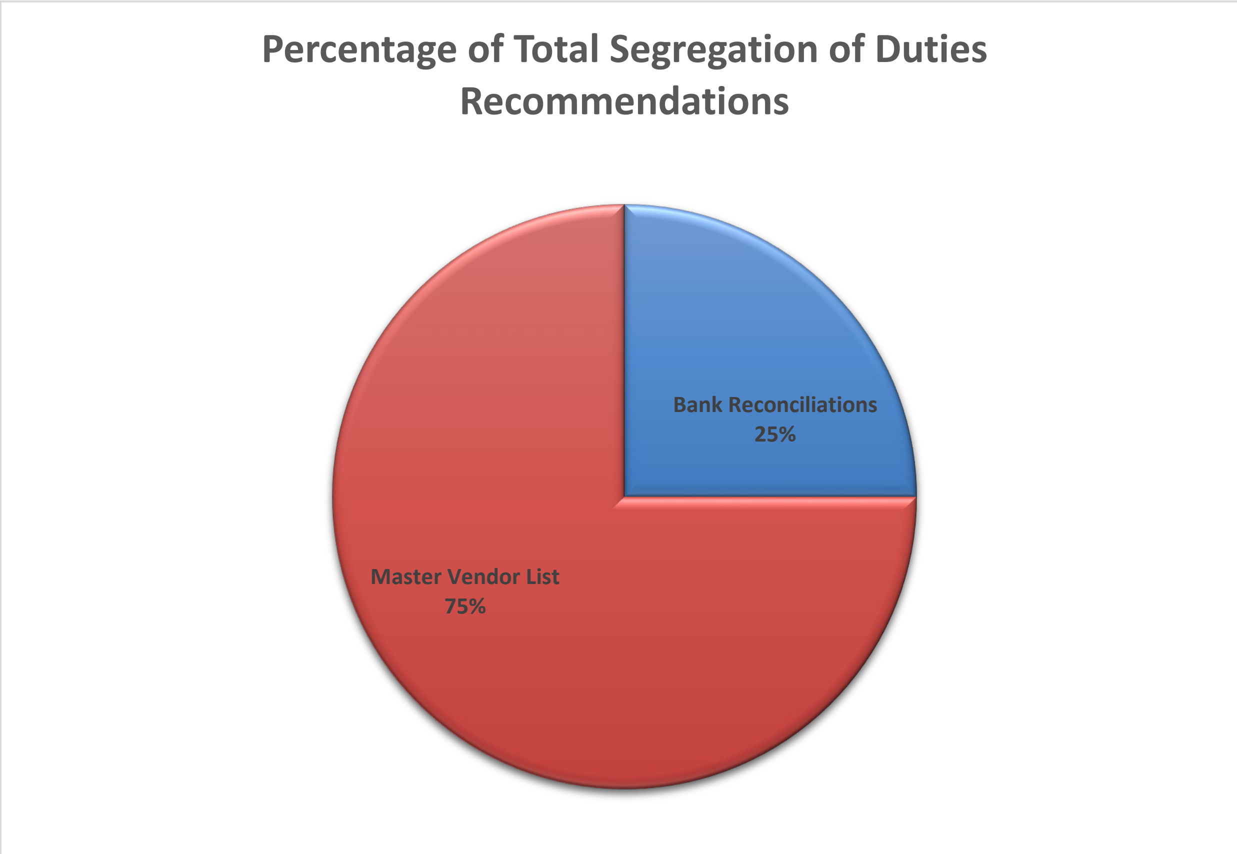
SEGREGATION OF DUTIES

Over the two-year period, the OIG issued four recommendations to implement or enhance policies for the segregation of duties. During two audits, the audit team discovered that grantees lacked segregation of duties for bank reconciliations and maintaining the master vendor file.

Exhibit 23: Summary of Segregation of Duties Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Master Vendor List	3	3
Bank Reconciliations	1	1
Grand Total	**4**	

Exhibit 24: Percentage of Total Segregation of Duties Recommendations



<u>Master Vendor List</u>

The OIG issued three recommendations pertaining to segregation of duties for grantees' master vendor list. Auditors found that in general, employees who maintained the vendor list also performed accounts payable functions that included initiating and processing payments.

The LSC <u>Accounting Guide,</u> Section 3-4.3, Internal Control Structure – Segregation of Duties, mandates that,

> Accounting duties should be segregated to ensure that no individual simultaneously has both physical and record keeping control 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 involved in the process.

To address this issue, the OIG recommended the Executive Director implement policies to ensure the same employee did not maintain the master vendor list and make vendor payments, in addition to perform periodic reviews of the master vendor list.

Bank Reconciliations

During one audit, the OIG noted that debit cardholders performed reconciliations of bank transactions that included their own purchases. The OIG recommended the Executive Director ensure bank reconciliation duties are segregated so that debit cardholders with accounts payable functions are not performing their own reconciliations.

PAYROLL

From October 1, 2017 to September 30, 2019, the OIG issued two recommendations for a grantee to improve its policies regarding timesheet approvals and payroll accounts to ensure compliance with the LSC Accounting Guide.

Exhibit 25: Summary of Payroll Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Policy or Practice Not in Compliance	2	1
Grand Total	**2**	

Exhibit 26: Percentage of Total Payroll Recommendations

The grantee failed to maintain a separate payroll account and processed payroll through their general bank account. LSC Accounting Guide, Appendix VII – Accounting Procedures and Internal Control Checklist, stipulates that payroll activities, including electronic transactions processed, should have a designated payroll account that is separate from the general bank account.

Additionally, employee timesheets were not approved by their supervisor, but instead, were approved by a Program Administrator. The LSC Accounting Guide, Section 3.5.5, Payroll, Attendance Record or Time Record, states that "an attendance record or time record shall be maintained for each employee and shall be approved by the employee's supervisor".

To correct the findings, the OIG recommended the Executive Director to:

- ensure payroll activities are not processed in the general bank account but in a separate payroll account and that staff are adequately trained on the operation of the account; and
- ensure timesheets are monitored and approved by the employee's immediate supervisor that has daily contact with staff.

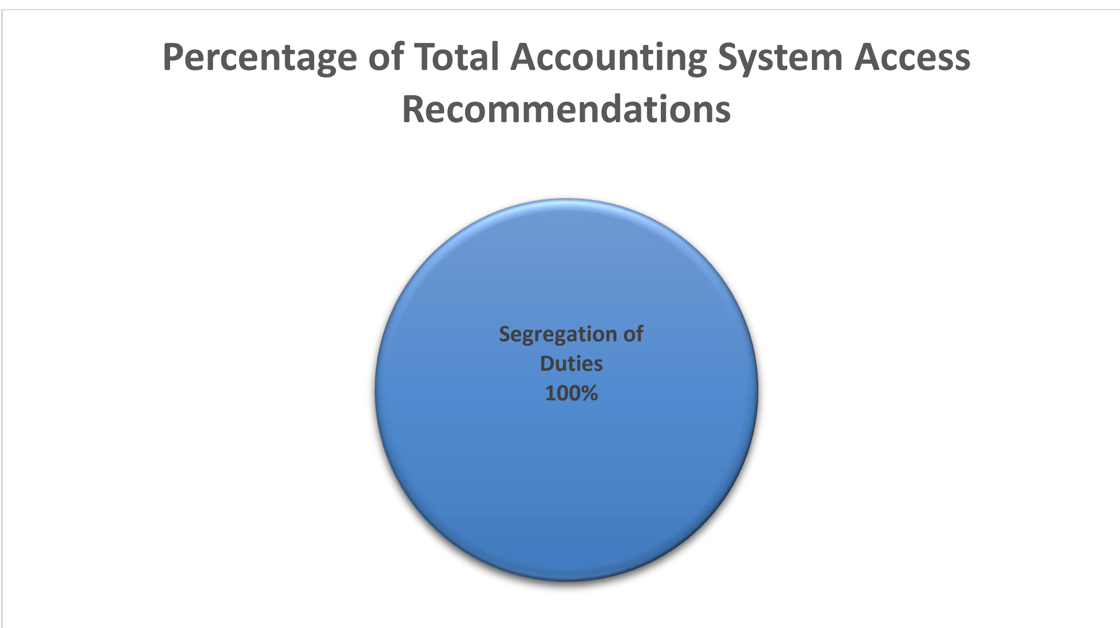
ACCOUNTING SYSTEM ACCESS

The OIG issued two recommendations to two grantees regarding authorized users and access to accounting systems.

Exhibit 27: Summary of Accounting System Access Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Segregation of Duties	2	2
Grand Total	**2**	

Exhibit 28: Percentage of Total Accounting System Access Recommendations



The grantees had inadequate segregation of duties pertaining to accounting information systems. For instance, a Bookkeeper and Finance Manager for a grantee had the same user rights for the accounting system to enter, review, or approve entries, despite different responsibilities.

The LSC Accounting Guide, Section 3-4 states that 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.

To ensure compliance with LSC Accounting Guide, Section 3-4, the OIG recommended that Executive Directors ensure that user access to accounting information systems is set up in accordance with the employee's responsibilities and that no individual can initiate, execute, and record a transaction without a second independent person being involved in the process.

FINANCIAL REPORTING

Over the two-year period the OIG issued one recommendation regarding financial reporting. The grantee misclassified the LSC Technology Initiative Grant (TIG) as non-LSC funds. Misclassification of financial data and LSC funds increases the risk of financial statement fraud or misstatement.

The OIG recommended the Executive Director correct the error on the financial statement.

Exhibit 29: Percentage of Total Financial Reporting Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Misclassification of Financial Data	1	1
Grand Total	**1**	

Exhibit 30: Percentage of Total Financial Reporting Recommendations

CONCLUSION

As with previous compendium reports, the majority of findings and recommendations during the current reporting period (October 1, 2017 to September 30, 2019) were issued for deficient written policies and procedures. The OIG continues to discover issues in the areas of contracting, disbursements, general ledger and financial controls, and fixed assets also remained consistent over the current compendium reporting period, while credit card findings emerged as more significant issues during this reporting period. Exhibits 31 and 32 compare the results of our analysis of findings and recommendations issued during this period, October 1, 2017 to September 30, 2019, to the previous reporting period, October 1, 2015 to September 30, 2017.

The OIG recognizes that practices are more advanced than the written policies in place in many areas where auditors made recommendations. However, the OIG believes that a diligent effort to improve written policies and procedures, and other areas categorized in this report, will help secure internal controls and produce high quality work within grantee organizations. The OIG hopes that the information contained in this compendium report, along with individual grantee audit reports, will improve internal control structures and will help grantees comply with the LSC Act and regulations, LSC's Accounting Guide, professional accounting standards, and other applicable legal requirements.

Exhibit 31: Comparison Summary of Total Recommendations by Topic[4]

	October 1, 2015 - September 30, 2017			October 1, 2017 - September 30, 2019		
Finding/Recommendation Topic	**Number of Recommendations**	**Percentage of Recommendations**	**Number of Audit Reports**	**Number of Recommendations**	**Percentage of Recommendations**	**Number of Audit Reports**
Written Policies and Procedures	74	33%	19	26	21%	7
Contracting	33	15%	17	18	14%	6
Credit Cards	10	4%	6	18	14%	6
Disbursements	20	9%	12	13	10%	6
General Ledger and Financial Controls	23	10%	10	12	10%	6
Fixed Assets	27	12%	14	8	6%	5
Cost Allocation	5	2%	2	7	6%	5
Internal Reporting and Budgeting	4	2%	3	7	6%	4
Derivative Income	10	4%	7	4	3%	4
Segregation of Duties	16	7%	11	4	3%	4
Employee Benefits	2	1%	2	3	2%	1
Accounting System Access	0	0%	0	2	2%	2
Payroll	3	1%	2	2	2%	1
Financial Reporting	0	0%	0	1	1%	1
Master Vendor List	0	0%	0	0	0%	0
Grand Total	**227**		**105**	**125**		**58**

[4] During the period of October 1, 2017 to September 30, 2019, the OIG issued 7 audit reports. For the period of October 1, 2015 to September 30, 2017, the OIG issued 19 audit reports.

Exhibit 32: Comparison of Total Recommendations by Topic