Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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

September 28, 2017

Mr. Daniel Wichmer
Executive Director
Legal Services of Southern Missouri
809 North Campbell Avenue
Springfield, MO 65802

Dear Mr. Wichmer:

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

The OIG considers the proposed actions to all the recommendations as responsive. The actions planned by grantee management to address the issues and revise and update its Accounting/Finance Policies and Procedures Manual should correct the issues identified in the report.

However, Recommendations 1, 3, 5, 7, 8, 10, 14, 15, and 16 will remain open until the grantee's Accounting Manual has been updated. Recommendations 2, 4, 6, 9, 11, 12, and 13 are considered closed.

Please provide us with the revised Accounting Manual within six months of the date of this report.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

LSC
America's Partner For Equal Justice

cc: <u>Legal Services Corporation</u>
Jim Sandman
President

Lynn Jennings
Vice President for Grants Management

<u>Legal Services of Southern Missouri</u>
Craig R. Heidemann
President

Rebecca Burke
Vice President

Sent by E-mail to Board of Directors
Jeanette Alcorn
Darla Boice
Mary Boner
Newt Brill
The Honorable Sue Chrisman
Karla Crossley
James Crump
Fred Hall
Nancy Heard
Ted Helms
Christine Hutson
Joseph L. Johnson
Terry McVey
William Morgan
Joseph A. Murray
Jenni Oliveria
Jerry Redfern
Terri Shull
Matt Trokey

LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

FINAL REPORT ON SELECTED INTERNAL CONTROLS

LEGAL SERVICES OF SOUTHERN MISSOURI

RNO 526051

Report No. AU 17-10

September 2017

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INTRODUCTION

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

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

> [T]he process put in place, managed and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:
>
> 1. safeguarding of assets against unauthorized use or disposition;
> 2. reliability of financial information and reporting; and
> 3. compliance with regulations and laws that have a direct and material effect on the program.

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

BACKGROUND

Legal Services of Southern Missouri (LSSM) is one of four legal services organizations in Missouri funded primarily by the Legal Services Corporation (LSC). LSSM is a not-for-profit organization serving the low income and elderly in 43 counties across Southern Missouri. LSSM core legal services provided to the low income and elderly are domestic/sexual violence, family, consumer, housing, public benefits and elder law.

LSSM receives financial assistance from various sources including LSC, the State of Missouri, Missouri Lawyer Trust Account Foundation, and local area agencies on aging.

Per the audited financial statements for December 31, 2016, LSC provided 41 percent of the grantee's funding, amounting to $1,854,941. The other major funding source is the State of Missouri.

OBJECTIVE

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

AUDIT FINDINGS

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

COST ALLOCATION

LSSM's written policies and procedures for cost allocation adhere to LSC's *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. However, based on interviews of grantee staff and test work performed by the OIG, allocations were not always done in accordance with the grantee's policies and procedures.

Practices Not in Accordance with Policy

In practice, the grantee allocates direct costs based on hours reported in the KEMPS timekeeping system by function monthly instead of annually. In addition, the grantee also allocates costs outside of the KEMPS timekeeping system. We found that these allocations may not be completely accurate depending on the timing of KEMPS timekeeping report production. We examined three months of allocation noting for two of the three months a portion of the time allocation was not prepared based on the KEMP reports but based on separate time reports.

Per the LSSM Accounting Manual, the methodology for cost allocation stipulates that costs specific to a program or grant will be charged directly to that program or grant, and all cost allocations will be made during the annual budget process based on available funding for the upcoming program year.

The LSC Accounting Guide Section 3-5.9 stipulates that common expenses shall be allocated to funding sources on the basis agreed to by the applicable funding organizations, and in the absence of approved methods the allocation should be fair, consistent, and in an adequate manner to the individual cost centers, and funds. Further, the allocation formula should be adequately documented in writing with sufficient detail for the auditor, LSC, OIG, GAO and others, to easily understand, follow, and test the formula.

Without a consistent systematic basis for allocating costs, there is no assurance that LSC and other funding sources will receive their fair and equitable share of the costs.

Recommendation 1:

The Executive Director should ensure the practices used to allocate costs to funding sources are consistently applied and follow LSSM's documented written policies.

CONTRACTING

LSSM's written policies and procedures for contracting adhere to LSC's *Fundamental Criteria*. Several staff members were interviewed by OIG staff to obtain an understanding of the current contracting processes. We learned of some of the contracts in place and currently being bid on, the processes being followed for those bids, etc. Based on the interviews held, we conclude LSSM staff currently follows the documented policies and procedures.

Nevertheless, the OIG reviewed 12 existing vendor files and tested them for adherence to the *Fundamental Criteria*. Of these 12 vendor files reviewed, we noted inadequate contracting documentation as follows:

- For two of the twelve vendor files selected, one for language translation and one for consulting services, management was unable to locate a documented contractual agreement. Per grantee management, one vendor has been used for quite some time and the other vendor was approved by the Board of Directors but grantee management did not obtain a contract.
- One vendor contract did not have the contractual period included in the contract. This vendor was adopted by LSSM during the merger of the Missouri offices.
- For two of the twelve vendor files, LSSM management was not able to determine how the vendor was contracted. For three of the remaining ten vendors, LSSM was unable to provide supporting documentation of the contracting process. Grantee management explained that they have no record of vendor selections as several of the companies are old or rolled over with the merger of the Missouri offices.
- Four vendors had several invoices paid that did not agree with the price stated in the contract agreement. Per grantee management and/or review of contracts it was found that in some cases the contract terms were vague, the original contract was not in the file, or the vendor inadvertently overcharged LSSM and will provide a credit.

Many of these issues detailed above occurred prior to the tenure of the current Executive Director. While the team was on site, grantee management worked to update and/or investigate cost issues associated with any of these contracts. The Director of Development noted that the grantee will work on training staff in the future.

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

Without a formal contract, the statement of work and other contract terms cannot be adequately communicated, monitored and enforced which may hinder management's ability to prevent or detect the risk of fraud, waste or abuse. Also, since not all contracts are the same, for large contracts, competition helps ensure the best value for the grantee and proper documentation helps ensure that an approved contract has followed all established procedures.

Recommendation 2: The Executive Director should ensure that contracts for services are written, signed and maintained for all business arrangements, especially those recurring in nature. The contracts should fully document the agreed upon terms, selling price, and payment terms and should be reviewed periodically to ensure that written terms are defined and current.

DISBURSEMENTS

LSSM's written policies and procedures for disbursements are comparable to LSC's *Fundamental Criteria*. The OIG reviewed and tested 103 disbursements comprised of 74 vendors and 128 individual transactions totaling $201,804. Transactions included large amounts, unfamiliar vendors, employee reimbursements, credit cards, bank payments, dues and memberships, conferences and training, contract services, and office supplies. In performing our test work, we found some inadequate practices, approvals and documentation as follows:

Segregation of Duties

The Director of Finance and the Office Administrator has full access to the master vendor list. Both can add new, edit and delete vendors. However, the Office Administrator is also responsible for accounts payable duties that include initiating and processing payments. The Director of Finance explained that it is difficult to have complete segregation of duties when only two people are responsible for the entire Accounting department.

The LSC Accounting Guide Section 3-4.3 stipulates that accounting duties should be segregated to ensure that no individual simultaneously has both physical control and record keeping 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.

Without adequate segregation of duties between the accounts payable function and the maintenance of the master vendor list, the grantee may not be able to detect unauthorized changes to vendor information which may further lead to fraud, waste or abuse of the grantee's resources.

Inadequate Approval

Of the 128 individual transactions reviewed, 33 transactions totaling $40,833 were missing appropriate approvals. None of the transactions were allocated to LSC funding.

- 23 transactions pertaining to training, meetings, conferences, maintenance, office supplies and flowers did not include required check request forms. Therefore, the approvals were not documented.

- Ten transactions of the Executive Director's reimbursement requests had no documented Board of Director oversight.

The Director of Finance explained the lack of approvals was due to a management oversight.

LSSM's Accounting Manual stipulates that a request for disbursement form should be completed on all disbursements other than recurring office bills, such as books and supplies. Also, the LSC Accounting Guide Section 3-5.4 stipulates that approval should be required at an appropriate level of management before a commitment of resources is made.

LSSM should adhere to its expenditures policies for purchases included within the LSSM Accounting Manual. Failure to follow the purchase approval process may result in purchases made without the knowledge of appropriate management or at unacceptable prices or terms.

Recommendations: The Executive Director should:

Recommendation 3: ensure the duties of maintaining the master vendor file and accounts payable are segregated by having other authorized personnel review the master vendor list and all related edits and changes to the list on a periodic basis.

Recommendation 4: enforce the grantee's policies and procedures in ensuring that all non-recurring disbursements have an approved check request form attached, approvals are made at an appropriate level of management before a commitment of resources is made and there is Board oversight for the Executive Director's expenses.

CREDIT CARDS

LSSM's written policies and procedures over credit cards do not fully adhere to LSC's *Fundamental Criteria*. The OIG tested 10 credit card statements from three credit accounts totaling $12,446. Review and testing of the grantee's practices over credit cards revealed additional controls that need strengthening.

Inadequate Policy

OIG review of LSSM's written policies and procedures for credit cards determined that their policies do not fully adhere to LSC's *Fundamental Criteria*. The grantee did not address the following:

- Whether cash advances or ATM withdrawals are allowed.
- Procedures that specify the maximum amount of total expenditures that would require prior approval from a supervisor.
- Procedures with a specific deadline on how soon receipts need to be turned in.
- Procedures to ensure that credit cards are suspended for terminated employees or employees transferred to positions incompatible with the use of credit cards.
- Procedures for Board of Director oversight of the Executive Director's credit card transactions.
- Prior approval procedures for travel related transactions.
- An acknowledgement form containing credit card policies for employees issued a credit card.

In discussions with the Director of Finance, we found that the grantee has practices in place for most of the processes detailed above except for procedures that specify the maximum expenditure amount that would require prior approval from a supervisor; prior approval procedures for travel related transactions; and an acknowledgement form containing credit card policies for employees issued a credit card. The Director of Finance explained that these practices were not included in the written policies and procedures due to an oversight.

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

Without an adequate policy, the credit cards may be subject to unauthorized transactions involving fraud and abuse.

No Prior Approval

The grantee has a Visa credit card with a limit of $33,000, used primarily for travel related purchases issued to the Executive Director, Deputy Director and the Director of Development. Our review of the credit card transactions found 10 travel related charges by staff including the Executive Director, amounting to $6,195, with no prior approval.

The Executive Director explained having no documented prior approval was due to an oversight and agreed to have a Board member approve his travel related purchases.

The LSC Accounting Guide Section 3-4.5 stipulates that approval should be required at an appropriate level of management before a commitment of resources is made.

Without a documented prior approval process in place, purchases may be made at unacceptable prices or terms and could subject management to higher than anticipated costs.

Not in Accordance with Policies and Procedures

In addition to the Visa credit card, the grantee also has a Walmart credit card with a limit of $2,000 and a business credit card with Staples that has no limit. The cards are issued to Office Administrators for small IT equipment purchases and office supplies.

Our review of the credit and business account transactions found two transactions from Walmart and 10 transactions from Staples with no purchase request as required by the grantee's policy. The Office Administrator had an understanding that a purchase order is only required for small, single IT equipment purchases in excess of $300.

The LSSM's Operations Manual stipulates that all supplies or equipment ordered with either a single or cumulative cost of $300 requires a purchase order.

The use of credit cards may be subject to unauthorized transactions or fraud and abuse if policies and procedures are not followed.

Recommendations: The Executive Director should:

Recommendation 5: enhance written policies and procedure to include the following:

- whether cash advances or ATM withdrawals are allowed;
- the maximum amount of expenditures that require prior approval from a supervisor,

- a specific deadline for submission of receipts;
- suspension of credit cards for terminated employees or employees transferred to positions incompatible with the use of credit cards;
- prior approval procedures for travel related transactions;
- an acknowledgement form containing credit card policies for employees issued a credit card or authorized to use a credit card; and
- the current practices in place wherein the Board of Directors ensures oversight over the Executive Director's credit card transactions through the posting of the statements in the grantee's internal web portal.

Recommendation 6: ensure that purchase orders are used per LSSM's Operations Manual for single and/or cumulative purchases of office supplies in excess of $300.

Recommendation 7: implement a preapproval process for travel related credit card purchases.

PAYROLL

LSSM's written policies and procedures for payroll are comparable to LSC's *Fundamental Criteria*. However, the OIG reviewed the grantee's payroll processes in place and found some inadequate internal control practices.

Segregation of Duties

In discussions with the Director of Finance, we found that since the Director of Administration retired in January 2017 there has been no segregation of duties over payroll and human resource administration. The Director of Finance, whose duties include payroll processing, is also responsible for human resource administration. In addition, the Director of Finance has full administrative rights to the payroll system which provides her the ability to make changes to her own pay rate or add and delete employees. The Director of Finance and Executive Director explained that they are aware of the segregation of duties issue and have already taken steps to outsource the payroll process.

The LSC Accounting Guide Section 3-4 stipulates that accounting duties should be segregated to ensure that no individual simultaneously has both physical control and record keeping responsibility for any asset, including, but not limited to, cash, client deposits and 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.

Without management oversight, unauthorized adjustments to payroll may be processed to increase or decrease amounts paid to employees or add ghost employees.

Pay Rate Approvals

The OIG reviewed the grantee's process of authorization and justification for adjustments to pay rates. There was one pay rate increase, made to the Director of Development, during the period of review that did not have documented Executive Director approval as per the grantee's policy. The Director of Finance explained she only has documentation of the request to adjust the pay rate from the Executive Director's assistant along with the approval from the Board of Directors in the meeting minutes. This event occurred prior to the current Executive Director.

The LSSM's Personnel Manual, Section 4.3 stipulates that any changes of personnel or payroll information, including pay rate, must be approved by the Executive Director. The LSC Accounting Guide Section 3.5.5 stipulates that salary and wage rates should be approved in writing by an authorized individual. Procedures must be adequate to provide that employees are paid in accordance with approved wage and salary plans.

Without documented approval of pay increases, salary changes may not be properly authorized and justified. Properly documenting approval of pay increases ensures that proper authorizations exist for the pay rate increase.

Recommendations: The Executive Director should ensure that:

Recommendation 8: management reviews and approves payroll changes, especially in cases where full segregation of duties is impracticable.

Recommendation 9: LSSM is following its policy over approval of pay increases and the approvals are documented.

EMPLOYEE BENEFITS

LSSM's written policies and procedures for employee benefits need to be updated to include all benefits offered to employees. The grantee's Personnel Policies Manual did not include the cell phone reimbursement benefit. The grantee's practices and controls in place over the cell phone reimbursement benefit were not included in the grantee's Accounting or Operations Manuals.

The grantee offers a cell phone reimbursement to attorneys and paralegals in the amount of $40 per month. Employees requesting the reimbursement must complete a reimbursement request form to be approved by their supervisors. The Executive Director stated the cell phone benefit was initiated by the former Executive Director and failed to include it in the Personnel Policies Manual due to an oversight. He also added that the grantee is in the process of eliminating the cell phone benefit. The proposal will be presented at the next Board of Director's meeting and the benefit will most likely be eliminated by January 2018.

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

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to the staff. Without detailed written procedures over employee benefits, there could be a lack of transparency and consistency in the distribution of the benefits.

Recommendation 10: The Executive Director should ensure that all current benefits, such as the cell phone reimbursement offered to employees, are included in the grantee's written policy.

DERIVATIVE INCOME

LSSM's written policies and procedures for derivative income are adequate. However, in regards to allocating derivative income, the policy is not practiced. For instance, the grantee received $18,097 in rental income and $3,952 in interest income. The rental income was fully allocated to LSC, but was not based on the ratio of LSC grants to the total grant revenue for the period under audit. A portion of the interest income in the amount of $1,326 was properly allocated to fundraising, the other portion was allocated to LSC. Per LSSM Director of Finance, interest income from investment and checking has gone to LSC for years. For rental income, she is unsure who funded the Charleston office purchase as the building was acquired through the Missouri offices merger.

45 CFR §1630.12(a) states that derivative income resulting from an activity supported in whole or in part with funds provided by LSC shall be allocated to the fund in which the grantee's LSC grant is recorded in the same proportion that the amount of LSC funds expended bears to the total amount expended by the grantee to support the activity

Failure to have an adequate allocation methodology for interest and rental income may result in an unfair allocation of interest and rental income back to the appropriate funding sources.

Recommendation 11: The Executive Director should ensure interest and rental income are allocated among funding sources in accordance with the respective grant conditions and the requirements specified in 45 CFR § 1630.12 and the grantee's written policy.

FIXED ASSETS

Written Policies

OIG's review of LSSM's written policies and procedures for fixed assets determined that they need to be updated to include all elements required by LSC's *Fundamental Criteria*. The following elements for the property record were not included in the grantee's Accounting Manual:

- date acquired;
- check number;
- salvage value;
- identification number;
- fair value (if donated); and
- method of valuation (if donated).

The Director of Finance stated she was not aware that the Accounting Manual required this level of detail.

The LSC Accounting Guide Section 3-4.5 stipulates that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*. Also, the LSC Accounting Guide Section 3-5.4 stipulates that property purchases should be recorded in a property subsidiary record. The property record should include:

- description of the property
- date acquired

- check number
- original cost
- fair value (if donated)
- method of valuation (if donated)
- salvage value, if any
- funding source
- estimated life
- depreciation method
- identification number
- location

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

Inventory Listing Inadequate

Based on the test work performed, LSC OIG determined that the internal controls over the fixed assets records and the electronic tracking listing were not adequate in tracking assets, furniture, equipment, and electronic devices. The OIG reviewed the grantee's fixed assets records and electronic tracking listing noting the records were not adequate as follows:

- The fixed asset record is missing elements required by the LSC *Fundamental Criteria* such as, check number, salvage value, fair value (if donated), method of valuation (if donated), depreciation method, and funding source.
- Both the fixed assets record and electronic tracking listing lacked some details including the user of the items and model/serial numbers

Because of inadequate recordkeeping detailed above, we discovered the following:

- Three assets were not found while the OIG Auditors were on-site. The assets in question were stated to have been transferred to a different office. Evidence of two of these assets was produced verifying their location at those offices.
- Two assets were found in one LSSM office but listed in another office's fixed asset listing.
- Three tagged assets were not included on the fixed asset listing.

The Director of Finance and the Data Manager both agreed that the listings need more detailed information to adequately track assets. The Data Manager stated it was an oversight as to why not all the fields in the Electronic Tracking Listing were not completed.

The LSC Accounting Guide Section 2-2.4, stipulates the grantee should be mindful of items that may contain sensitive information (for example, a computer with client confidential information) valued less than $5,000 and the need to inventory these items and dispose of them appropriately. 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 grantee's auditor.

An inadequate inventory listing could result in difficulty tracking items with no serial numbers or user identifications, accounting for items due to incorrect user/tag number in the listing and items being lost or stolen. Without an adequate and complete tracking system for all electronic items, there is no assurance that the grantee is properly safeguarding equipment and the information contained therein.

Recommendations: The Executive Director should:

Recommendation 12: ensure that a complete physical inventory is conducted in all locations. The results of the inventory should be reconciled with the property records. 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.

Recommendation 13: ensure that all fields of the fixed assets records and electronic tracking listing are complete and accurate.

GENERAL LEDGER AND FINANCIAL CONTROLS

LSSM's written policies and procedures for general ledger and financial controls are comparable to LSC's *Fundamental Criteria.* However, in performing our test work, we found some inadequate practices in place.

Segregation of Duties

There is lack of segregation of duties over bank reconciliation and bookkeeping duties. The Director of Finance, responsible for performing bank reconciliations, is also responsible for bookkeeping duties, including preparing and posting journal entries without review and approval.

The Director of Finance explained that prior to retirement, the Director of Administration would oversee the bank reconciliation process, including review and approval of journal entries. The Director of Finance added that journal entries will be part of the accounting function to be outsourced.

The LSC Accounting Guide Section 3-5.2(d) stipulates that bank statements shall be reconciled monthly to the general ledger by a person who has no access to cash, who is not a regular check signer, and has no cash bookkeeping duties. The reconciliation shall be reviewed and approved by a responsible individual. Such review shall be appropriately documented by signature and date. The LSC Accounting Guide Section 3-5.6 stipulates that each entry to the general journal should be approved by an authorized individual.

Bank reconciliation is a fundamental control technique and failure to use it may be interpreted as negligence, especially in an environment where full segregation of duties is not practicable. Without approval of journal entries, irregularities and unsupported or poorly referenced entries may not be detected.

Outstanding Checks

Seven outstanding checks over six months old, issued to vendors and individuals from bank reconciliations performed in December 2016 and January 2017 were found.

The Director of Finance stated the outstanding checks were not resolved in a timely manner due to the increase in her responsibilities when the Director of Administration retired in January 2017. She provided evidence that the outstanding checks were resolved as of April 2017.

The LSSM's Accounting Manual stipulates that any check outstanding six months or longer should be reviewed for possible action. After six months, the check will either be voided or re-issued. This may require a "stop payment" of the original check.

Not monitoring checks outstanding for more than six months could result in the possibility of undetected fraudulent signatures or endorsements, alterations of checks, improper use of voided checks, or improper recording of bank transfers.

Recommendations: The Executive Director should ensure that:

Recommendation 14: staff responsible for bank reconciliations has no bookkeeping duties.

Recommendation 15: the responsible individual reviews and approves journal entries to ensure they are complete, accurate and properly supported prior to posting in the general ledger.

Recommendation 16: management follows up on checks to void or re-issue any checks outstanding for more than six months as required by the grantee's policy.

GRANTEE MANAGEMENT COMMENTS

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

- LSSM will work to ensure contracts are rebid and adequate documentation is maintained;
- LSSM will review and improve its policy on managing disbursements;
- LSSM will be updating all policies regarding financial management of the organization and will incorporate LSC's OIG recommendations;
- LSSM has hired an outside accounting firm to assist with segregation of duties and implementing procedures related to allocations;
- New processes have been implemented for pay raises and pre-approvals;
- LSSM will ensure that policies are followed and enforced;
- The cell phone reimbursement policy will be presented to the Board of Directors for a decision; and
- LSSM will work to ensure a complete physical inventory is conducted and records are complete and accurate.

The Grantee's comments are included in Appendix II.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers the proposed actions to address all the recommendations as responsive. The actions taken and planned by the grantee management to hire an outside accounting firm, revise policies and ensure they are enforced are adequate.

Recommendations 2, 4, 6, 9, and 11 are considered closed. Recommendations 1, 3, 5, 7, 8, 10, 12, 13, 14, 15, and 16 will remain open until the grantee's Accounting Manual and fixed asset records are updated and the policies implemented.

APPENDIX I

SCOPE AND METHODOLOGY

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

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

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

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

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of vendor files were reviewed. The sample consisted of 103 disbursements totaling $201,804.25. The sample represented approximately 9.32 percent of the $2,165,088.80 disbursed for expenses other than payroll during the period January 1, 2016 to March 31, 2017. To assess the appropriateness of expenditures, we reviewed invoices and vendor lists, then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated based on the grant agreements, applicable laws and regulations and LSC policy guidance.

In addition to the disbursements, we sampled were 10 credit card transactions totaling $12,446.19. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

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

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

Controls over purchasing, recording, inventorying and disposing of property and equipment were reviewed by examining current grantee practices in comparison with LSC regulations and policies outlined in the LSC Accounting Guide.

The on-site fieldwork was conducted from May 15, 2017 through May 19, 2017. Our work was conducted at the grantee's administrative office in Springfield, MO and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2016 through March 31, 2017.

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

AUDIT FINDINGS
LEGAL SERVICES OF SOUTHERN MISSOURI (LSSM)
RESPONSE
September 2017

Legal Services of Southern Missouri (LSSM) Board of Directors and staff are appreciative of Legal Services Corporation's (LSC) Office of Inspector General assessing LSSM's practices and identifying weaknesses that could harm the organization, and ultimately have an impact on the clients it serves. LSSM is working to improve its financial management and has already begun taking corrective action.

LSSM has been in transition since its long-term Executive Director resigned in December 2015. Both the Interim Executive Director, and the new Executive Director, were faced with many personnel and financial challenges as they began to manage the organization. Now that the personnel matters have been resolved to ensure on-going quality legal services for its clients, LSSM is faced with overhauling its financial management systems.

As the new Executive Director reviewed the financial policies and procedures, he recommended to LSSM's Board of Directors a need to further segregate duties to strengthen internal controls to prevent fraud and error. Upon the retirement of the Director of Administration, the Finance Committee and the LSSM Board of Directors approved the outsourcing of the organization's accounting. LSSM sent bid proposals to 13 accounting firms and received three proposals. During the time the LSC OIG visited LSSM, LSSM was in the process of interviewing the three accounting firms. The accounting firm of Elliott, Robinson & Company, LLP was selected by the Board of Directors and began work in July 2017.

Cost Allocation "Recommendation 1": LSSM has reviewed the recommendation and concurs. LSSM is working with its outside accounting firm to implement the Accounting Guide Allocation.

Contracting "Recommendation 2": LSSM has reviewed the recommendation and concurs. LSSM will work to ensure contracts are rebid on a more frequent basis, and there will be adequate documentation outlining the contract bid process. Finally, LSSM will work to ensure that the terms of the contracts entered into with vendors will be reviewed with its outside accounting firm to ensure contract payments match payment terms.

Disbursements "Recommendations 3 and 4": LSSM recognizes it needs to review and improve its policy on managing disbursements.

Segregation of Duties: LSSM reviewed the financial policies and procedures, and recognized a need to further segregate duties to strengthen internal controls to prevent fraud and error. Upon the retirement of the Director of Administration, the Executive Director approached the Finance Committee and the Board of Directors regarding the outsourcing of the organizations accounting. Both the Finance Committee and the Board of Directors voted to outsource LSSM's accounting to ensure there is oversight and review. During the time the LSC OIG visited LSSM, it was in the process of taking corrective action. LSSM sent bid proposals to 13 accounting firms and received three proposals. The accounting firm of Elliott, Robinson & Company, LLP was selected by the Board of Directors and began work in July 2017.

Inadequate Approval: LSSM requires all invoices to be signed by the individual making the request and two members of management. While LSSM's accounting manual allows individuals to use the "Requisition Cash/Request Disbursement" form or a stamp for certain transactions, LSSM did not always follow the procedure outlined in the policy. LSSM has implemented Board prior approval for any Executive Director travel expenses. The Board of Directors approved a new policy in April 2016 for all travel requiring documentation, including, agendas, receipts, registration forms, etc., to be attached to all reimbursement requests. The Board of Directors also approved utilizing meal reimbursements based on the GSA per diem for the city traveled to. The Board of Directors appointed the Treasurer to oversee the Executive Director's expenses and reimbursements. The Executive Director also seeks prior approval from the Board President before making travel arrangements. Any request for reimbursement for the Executive Director will be submitted first to the Treasurer for review and approval prior to being submitted for payment. For clarification, the Director of Finance's comment regarding whether or not it was necessary for Board approval of the Executive Director's expenses may have been miscommunicated. LSSM feels this comment should be removed from the report.

Credit Cards "Recommendation 5": As previously mentioned, LSSM will be updating all policies regarding financial management of the organization and will incorporate LSC's OIG recommendations. While there may not have been adequate documentation attached to the VISA statement, a portion of the travel was pre-approved when grant requests were written and submitted to funders. Many of the grants require training and provide for said training in the line item budget. LSSM adheres to the grant requirements by sending staff to the grant funded trainings. Furthermore, while documentation was not attached to the VISA statement, the travel of the new Executive Director was approved by the Board President prior to the new Executive Director attending said trainings. An email outlining the trainings was sent to the Board President prior to the hiring of the new Executive Director. Once the new Executive Director was selected, he was informed of the approved trainings.

"Recommendation 6": LSSM has reviewed the recommendation, and will adhere to its policy.

"Recommendation 7": LSSM has reviewed the recommendation, and will implement a written pre-approval process.

Payroll "Recommendation 8": The segregation of duties noted in the report has been resolved with the hiring of an outside accounting firm. LSSM will ensure all policies are updated reflecting the new accounting processes involving the staff and outside accounting firm.

"Recommendation 9": As this recommendation involves actions by the prior director, LSSM has implemented a new process for pay raises. The new Executive Director submits all requests for pay raises to the entire Board, and the request and discussion are contained within closed session Board minutes. No raises are given without Board approval.

Employee Benefits "Recommendation 10": The Executive Director will bring the cell phone reimbursement policy to the Board of Directors for a decision. LSSM intends to accomplish this by December 31, 2017.

Derivative Income "Recommendation 11": LSSM has reviewed the recommendation and will work with the outside accounting firm to ensure all LSSM policies regarding allocation are followed in the future.

Fixed Assets "Recommendation 12": LSSM has reviewed the recommendation and will work to ensure a complete physical inventory is conducted at all locations.

"Recommendation 13": LSSM has reviewed the recommendation and will work to ensure the fixed assets records and electronic tracking listing are complete and accurate.

General Ledger & Financial Controls "Recommendations 14 – 16": LSSM implemented these recommendations in July 2017, with the hiring of Elliot, Robinson & Company, LLP.

LSSM understands it needs to overhaul or update all of its policies along with management enforcing policy. LSSM also realizes as policies change, or are updated, they also need to be changed and updated in the written policy manuals. In the past, duties were siloed, but moving forward all of LSSM management will be involved to ensure policies are followed and enforced.

LSSM is appreciative of the LSC OIG unraveling these issues to help it manage and operate more efficiently.