Office of Inspector General
Legal Services Corporation

November 15, 2021

Ms. Sonya Bellafant
Executive Director
603 Legal Aid
15 Green Street
Concord, NH 03301

Dear Ms. Bellafant,

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit on Selected Internal Controls at 603 Legal Aid (formerly Legal Advice and Referral Center). Appendix IV of the final report includes the grantee's comments to the draft report in their entirety.

The OIG considers the proposed actions to Recommendations 1, 3, 18, and 23 as fully responsive. These four recommendations are considered closed.

The OIG considers the proposed actions to Recommendations 4, 5, 7, 8, 9, 10, 11, 15 16, 17, 19, 20, 21, and 22 as responsive; however, these 14 recommendations will remain open until they are completely addressed, and the OIG is provided with the list of items mentioned on pages 27-28, OIG Evaluation of Grantee Management Comments, of the final report.

The OIG considers the comments to Recommendations 2, 6, 12, 13, 14, and 24 as partially responsive. These six recommendations will remain open until the OIG is provided a corrective action plan that specifically addresses the recommendations and documentation that the corrective action has been implemented.

The OIG is referring questioned costs totaling $965 of unallowable transactions to LSC management for their review and action.

Please send us your response to close out the 20 open recommendations, along with supporting documentation, within six months of the date of the final report. We thank you and your staff for your cooperation and look forward to receiving your submission by May 16, 2022.

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

Sincerely,

Jeffrey E. Schanz

Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
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Vice President for Grants Management

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LEGAL SERVICES CORPORATION

Office of Inspector General

603 Legal Aid

RNO 130010

Final Report on Selected Internal Controls

Report No. AU 22-01

November 2021

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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 603 Legal Aid (formerly Legal Advice and Referral Center) related to specific grantee operations and oversight. Audit work was conducted remotely due to safety concerns related to the coronavirus disease 2019 (COVID-19) pandemic.

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

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

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

BACKGROUND

Legal Advice and Referral Center, Inc. (LARC or "grantee") is a private, nonprofit law firm that provides free legal services to eligible, low-income people in New Hampshire. The mission of LARC is to fulfill America's promise of equal justice by providing civil legal services to New Hampshire's poor, including education and empowerment, advice, representation, and advocacy for systemic change.

In May 2021, LARC merged with the Pro Bono Program of the New Hampshire Bar Association to become 603 Legal Aid. 603 Legal Aid is a non-profit entity dedicated to providing high-quality civil legal services to New Hampshire's low-income communities. As a result of the merger, the grantee had a change in leadership with a new Executive Director. For the purposes of this audit, we will refer to the grantee by its former name, LARC, since that is the entity with which the audit was initiated.

According to the audited financial statement report for fiscal year ending 2019, LARC's funding amounted to $989,218. LSC provided approximately 81 percent or $803,572 of the grantee's funding. LARC accepted a COVID-19 Response Grant award in the amount of $118,335 and agreed to the Special Grant Award Terms and Conditions and Basic

Field Grant Terms and Conditions on April 20, 2020. LSC also awarded the grantee $18,232 for a 2020 Telework Capacity Building Grant. The grantee accepted and agreed to receive the technical assistance from LSC's Technology Initiatives Grant (TIG) before using the Telework Capacity Building grant to achieve the project proposed in their Grant Application. The grantee accepted the award on April 13, 2020.

OBJECTIVE

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

AUDIT FINDINGS

To accomplish the audit objective, the OIG evaluated select internal controls in specific financial and operational areas to ensure that costs were adequately supported and allowed under the LSC Act, along with other LSC regulations and guidelines. In particular, the OIG reviewed and tested internal controls related to disbursements, contracting, cost allocation, general ledger and financial controls, client trust funds, derivative income, employee benefits, payroll, fixed assets, management reporting and budgeting, and COVID-19/Coronavirus Aid, Relief, and Economic Security (CARES) Act funds, for the audit period of January 1, 2019, through December 31, 2020.

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

DISBURSEMENTS

The OIG found the grantee's written policies and procedures relating to disbursements comparable to the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. However, during testing we detected four LSC unallowable transactions, improper document retention, and inadequate documentation of prior approvals over expenditures. Additionally, the OIG found inadequate segregation of duties over user access rights in the accounting systems.

OIG testwork consisted of a judgmentally selected sample of 64 disbursement transactions, totaling $106,503. The sample represents approximately 13 percent of the $805,920 total disbursed for expenses other than payroll.

LSC Unallowable Transactions

Of the 64 disbursement transactions tested, the OIG identified four disbursement transactions, totaling $2,455, that were unallowable based on LSC regulations. Of the total amount, $965 was allocated to LSC and will be questioned (see Table 1 below).

Table I - LSC Unallowable Costs

Sample Number	Type of Charge	Check Amount	Amount Allocated to LSC	Questioned Cost Description	Questioned Cost Amount
1	Copier Contract	$410	$410	Late Fee	$10
2	Telephone System	$1,108	$1,098	Late Fee	$18
3	Non-Profit Membership	$470	$470	Membership Fee	$470
4	Unknown	$467	$467	Missing Disbursement and Support Documentation	$467
Totals:		**$2,455**	**$2,445**		**$965**

LARC management acknowledged that the late fees should not have been allocated to LSC after the OIG made them aware the fees were unallowable. LARC management also stated that the $470 charge was for the grantee's membership fee renewal and acknowledged that it was incorrectly allocated to LSC. The one disbursement for $467 could not be located in the grantee's records and the grantee was unable to provide supporting documentation, such as receipts, invoices, and a copy of the check. We were unable to verify if the charge was allowable to be charged to LSC.

LSC Program Letter 13-1, Specific Regulatory Issues, 45 CFR Part 1630 – Cost Standards and Procedures, stipulates that grantees should not use LSC funds to pay for late fees. Furthermore, LSC Regulation 45 CFR §1630.7(a) states "LSC funds may not be used to pay membership fees or dues to any private or nonprofit organization, whether on behalf of the recipient or an individual."

The OIG is questioning the unallowable transaction amount of $965, pursuant to 45 CFR §1630 and 45 CFR §1630.7(a).

Using LSC funds for unallowable costs results in grantee violation of the terms of their grant agreement and LSC regulations and leaves the grantee subject to potential questioned cost proceedings.

Inadequate Document Retention

While reviewing the check register for missing or out of sequence check numbers, the OIG noted that six checks were missing. The grantee provided support for five of the missing checks. However, the grantee could not locate supporting documentation for one of the checks. The missing, out of sequence check could not be traced to the grantee's general ledger and the grantee had no record indicating what happened to the check.

LARC management was unable to locate the missing check in their records.

The Accounting Guide, Appendix II, Description of Accounting Records: Retention Time for Nonprofit Records, stipulates those records, such as source documents, should be kept for at least seven years unless state law requires retention for a longer period.

Failure to maintain an effective method for recording disbursements and retaining supporting documentation may adversely affect the ability to ensure the completeness and accuracy of actual expenses.

Lack of Requisite Approval

The OIG found two disbursement transactions that did not receive requisite approval and one disbursement transaction where approval was unknown since the disbursement package was not provided as mentioned above. The two disbursement transactions that did not receive requisite approval totaled $1,841, and the disbursement transaction where approval was unknown, as reported previously, totaled $467. One hundred percent of these costs were allocated to LSC.

LARC management acknowledged there was no approval in the supporting documents submitted to the OIG due to an oversight by management.

The Accounting Guide, § 3-5.4(a), states that "approval should be required at an appropriate level of management before a commitment of resources is made." The LARC Accounting Manual also states that "checks and original invoice or other supporting documentation are sent to Executive Director for approval and signature. When the Executive Director signs each check, he/she should review, approve and initial the check request voucher."

Failure to follow a purchase approval process may result in purchases made without the knowledge of appropriate management or at unacceptable prices or terms and may also result in a misappropriation of funds.

Inadequate Segregation of Duties

The OIG found that LARC has adequate segregation of duties outside of the accounting system, however, there is a lack of segregation of duties within the accounting system.

The Controller has administrator level access to all functions of the accounts payable system, some of which are outside the scope of the job description, including the ability to approve bills and authorize payments. The OIG found that the accounts payable system does not have safeguards in place to prohibit the authorization of payment by the Controller. Furthermore, the Controller, Office Administrator, and Executive Director had the same user access rights within the former accounting software system used during the scope of the audit. In September 2020, LARC management decided to move to a new accounting system in which all users have access appropriate for their job duties which ensures adequate segregation of duties is maintained.

LARC management stated that although the Controller has administrator level access within the accounts payable system, authorization of any payment is only made after approval by the Executive Director or another authorized check signer. According to LARC management, payment history and canceled checks are maintained within the accounts payable system; and LARC's independent certified public accountants test the controls annually. LARC management was also unaware that there were different levels of access in the former accounting system. A recommendation will not be made for this finding since a resolution has already been implemented.

The Accounting Guide § 3-4.3, 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."

Without segregation of duties within the accounting software, any accounting or staff member with access can initiate and record a transaction without a second independent individual being involved in the process to ensure its accuracy and validity.

The OIG recommends the Executive Director ensures that:

Recommendation 1: LSC unallowable costs are charged to funding sources other than LSC.

Recommendation 2: adequate documentation for all expenses is retained for the recommended seven years in accordance with Appendix II of the LSC Accounting Guide.

Recommendation 3: approvals for all disbursements are documented by an authorized individual prior to payment.

CONTRACTING

The OIG reviewed LARC's contracting policies, procedures, and practices in place to determine whether the grantee has adequate internal controls over the contracting process. LARC's written policies and procedures over contracting are comparable to

LSC’s *Fundamental Criteria* and identify procedures for various types of contracts. However, the grantee did not consistently follow its written policies and procedures or adhere to LSC regulations. As a result, several exceptions were found that pertain to the following: contract documentation, sole source justification, approvals, contract renewals/renegotiations, and contract invoices.

To test internal controls over contracting, the OIG conducted interviews and selected a non-statistical and judgmental sample of six contracts for a variety of services, such as phone and internet, fire alarm system, and cleaning. During the audit period, LARC expended $38,259 for these contracts.

<u>Contract Not on File</u>

A former member of LARC’s Board of Directors provides cleaning services to the grantee on an as-needed basis. However, the grantee does not have a documented and formal written contract with this vendor. The vendor was paid a total of $1,525 during the audit period.

LARC management stated that the failure to initiate a formal, written contract with this vendor was due to oversight. Management also stated that the individual was a former member of LARC's Board of Directors and once they stepped down from the Board, cleaning services were provided to the grantee on an as-needed basis.

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

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

<u>Lack of Sole Source Justification</u>

Two sole sourced contracts, with payments totaling $24,030, did not have a documented sole source justification on file. One contract was for the grantee’s internet and telephone service, the other contract was for the grantee’s case management system.

LARC management stated that the internet and telephone service provider has a virtual monopoly in the geographic area and there are no other providers that can provide the internet and telephone services the grantee requires. LARC management also stated there are no optional vendors for the case management system. LARC management did agree that sole source justifications stating such should be documented and saved with the vendor files.

The *Fundamental Criteria*, Section 3-5.16, stipulates, “The process used for each contract action should be fully documented and the documentation maintained in a central file.” The LARC <u>Accounting Manual</u> also stipulates that in certain circumstances where competitive bidding for contracts is not feasible or of benefit to the organization, decisions will be documented and kept on file.

Proper documentation helps ensure approved contracts follow all established procedures to support the validity of awarding sole source contracts.

Lack of Appropriate Approvals

Three contracts did not contain evidence of appropriate approvals when entering into the contract. The contracts were for internet and telephone services (as previously mentioned), postage meter services, and an alarm system. The vendors for these contracts were paid a collective total of $11,677 during the audit period. All three contracts were signed by the former LARC Office Administrator, who was not authorized to initiate and enter into contracts. Also, one of the three contracts did not have a signature from the vendor on the contract.

LARC management stated the former Office Administrator likely signed the contracts because she gathered the proposals and quotes for these contracts. The former Office Administrator would then present the proposals and quote information to the former Executive Director and, once a decision was made, the former Office Administrator would sign the contract since she was the one in contact with the vendor.

The *Fundamental Criteria*, Section 3-5.16, states, “The required approval level (including items that need to be approved by LSC) should be established for each contract type and dollar threshold, including when the board of directors should be notified and / or give approval.” The grantee’s Accounting Manual also stipulates, “Only the Executive Director may sign a contractual or vendor agreement or lease.”

Improper contracting actions could be entered into without proper approval and subject the grantee to questioned cost proceedings.

Contracts Not Renewed or Renegotiated

LARC’s Accounting Manual stipulates that contracts should be reviewed and renegotiated every three years. Of the five contracts on file, three contracts were over three-years old and had never been renegotiated. One of the three contracts has been active without being renegotiated since 2009, while the other two contracts have not been renewed or renegotiated since 2014 and 2015.

LARC management stated that evaluating the ongoing vendor relationships for all active contracts is a reasonable step to take at this point in time.

The LARC Accounting Manual states, “Vendor and contractual agreements that extend for more than one year shall be reviewed and renegotiated no less than every three years.” According to the LSC Program Letter 16-3: Procurement Policy Drafting 101, Section III, “Although it is beneficial to establish long-lasting business relationships with reliable vendors, it is important to periodically recompete recurring purchases and long-standing contracts every 3-5 years to ensure that best value is obtained.”

Periodically re-evaluating contracts ensures that the grantee is receiving the best value for funds expended.

Invoices Deviated from Contract Amounts

Of the five contracts on file, the invoices for two vendors did not match the agreed-upon contractual amounts. The monthly billing increased for the internet and telephone provider since the contract started in 2014, however, documentation of the approved and accepted increase was not maintained by the grantee. This vendor was paid a total of $9,958 during the audit period, however per our review of the contract on file, only $6,593 should have been disbursed to this vendor during the audit period. For the grantee's case management system, the contract does not detail the terms and fees that have been agreed upon by the grantee, making it unknown if the contractual amounts agree with the invoice. The vendor was paid a total of $14,072 during the audit period.

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

LARC management stated that the grantee is fully aware of the increased cost over the years and agrees that the new costs should be documented and saved in the vendor files.

Contracting is a high-risk area for potential abuse and fraud. Without adequate internal verification, cash may be disbursed for services not received, in advance of receipt, or in the wrong amount. Proper documentation helps ensure that the grantee has a legal arrangement outlining established procedures for the goods/services to be received.

The OIG recommends the Executive Director ensure that:

Recommendation 4: contracts are written and maintained for all business arrangements. The contracts should document the statement of work, the agreed upon terms, costs, and payments terms, and should be reviewed periodically to ensure that written terms are defined and current.

Recommendation 5: sole source justifications are fully documented, and the documentation is maintained with the contract files.

Recommendation 6: contracts are only entered into by authorized and appropriate individuals.

Recommendation 7: contracts are re-bid or re-evaluated every three years.

FIXED ASSETS

The OIG reviewed the grantee's written policies, procedures, and practices in place over fixed assets and determined that LARC's written processes were comparable to the *Fundamental Criteria* and adhered to LSC regulations and guidelines. The OIG also judgmentally selected 28 items from LARC's Inventory List and Computer Audit Report to determine if the assets physically existed, received proper authorization for acquisition, were properly tagged and traceable to the grantee's records, and that the records included the elements stated in the *Fundamental Criteria*.

The 28 items reviewed were comprised of desktop computers, laptops, servers, a projector, and a printer. During review of the items sampled, the OIG found that one item was a virtual server housed inside of an item already sampled, so we only tested 27 items. In performing its testwork, the OIG: was unable to verify the physical existence of one item; found items were missing physical inventory tags; found no record of grantee performing a physical inventory; determined the depreciation schedule for fixed assets was inadequate and found that the fixed asset property record did not have all elements required by the LSC *Fundamental Criteria*.

<u>Unable to Verify Physical Existence</u>

Through interviews and review of the grantee's inventory and property records, the OIG found that the grantee affixes a physical tag on information technology items and assets. However, one out of 27 items sampled could not be verified to exist because the physical tag affixed on the item did not match the grantee's records. One laptop had a physical tag; however, the tag did not match what was being tracked in the grantee's listing. The OIG was unable to verify if the laptop provided was the asset sampled.

LARC management stated that the laptop was retagged; however, the OIG could not verify this since the item was not tracked by any other identifiable characteristics such as a serial number and the old tag was not maintained after removal.

The LARC <u>Accounting Manual</u> states that the permanent property log or database should contain the inventory tag number (all fixed assets should be tagged with a unique identifying number) and location.

Lack of identification tags for assets may cause inability of the grantee to locate and track an asset to property records, which could result in theft or damage to an asset not being recorded.

<u>Missing Physical Inventory Tags</u>

Through photographs provided by the grantee, we were able to trace the physical inventory tags affixed to items to the grantee's inventory listing. However, of the 27 assets sampled, the eight items listed below did not have a physical inventory tag:

- one projector,

- two desktop computers, and
- five laptops; however, three of the five laptops had an internal/virtual tag that appears in the computer's internal settings.

LARC management could not explain why there were no inventory tags affixed to these eight items.

The Accounting Guide, Appendix VII recommends that fixed assets be tagged for easy identification with fixed asset records.

Absence of physical inventory tags may cause the grantee to be unable to locate and track an asset to property records, which could result in not reporting or recording the theft of or damages to an asset.

Failure to Perform Physical Inventory

The OIG found that a physical inventory had not been performed and reconciled with the grantee's general ledger property accounts. LARC management stated they were unaware of when the last physical inventory was taken because it was part of the former Office Administrator's job description. There was no management oversight to determine whether the physical inventory was performed.

The LSC Accounting Guide § 2-2.4, states that the recipient should be mindful of items that may contain sensitive information (for example, a computer with client confidential information) with values lower than $5,000 and the need to inventory these items and dispose of them appropriately. Also, 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 should be investigated to determine the cause(s) of the differences, 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. The LARC Accounting Manual states that at least annually, a physical inspection and inventory should be taken of all LARC fixed assets and reconciled to the general ledger.

Failure to complete a physical inspection and inventory may result in inaccurate inventory records and thefts or damages of property going unreported.

Inadequate Depreciation Schedule

The grantee requires all fixed asset purchases of $1,000 or greater be included on the depreciation schedule. Also, the LSC Accounting Guide (as mentioned above) requires items that contain sensitive information to be inventoried and tracked. Based on these requirements, 26 of the 27 items we sampled were required to be in the grantee's depreciation schedule, however, we found that 24 items were missing from the schedule.

LARC management stated that purchases from 2020 were not put in the depreciation schedule since a proposal to change LARC's capitalization threshold from $1,000 to $5,000 was made to LARC's Board of Directors, however, as of the date of the OIG's review and inquiry, it had yet to be approved.

The LARC Accounting Manual states that a permanent property log or database is to be maintained by the Office Administrator for all fixed assets purchased by LARC and that all capital items which have a cost greater than $1,000 will be capitalized and depreciated.

Failure to maintain adequate fixed asset records may result in the inability to fully account for fixed asset purchases and to support depreciation amounts and property asset balances which may lead to inaccurate financial statements.

Inadequate Property Records

The OIG found that internal controls over property records need strengthening. LARC's property records did not include all the elements required by the *Fundamental Criteria* and LARC's Accounting Manual. Specifically, the records did not include fields for identifying how the asset was received (i.e. by donation or purchased), the donor or funding source (if applicable), the depreciation method, the salvage value (if any), the warranty period, and the check number.

The grantee acknowledged that property records lacked elements as required by the *Fundamental Criteria* and the grantee's Accounting Manual. Based on the OIG's observation, the lack of adequate documentation of the property records was due to management oversight.

The LSC Accounting Guide, § 3-5.4(c), states 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, and location."

Failure to maintain adequate property records may result in the grantee being unable to fully account for fixed asset purchases and to support depreciation amounts and property asset balances which may lead to inaccuracy in the financial statements.

The OIG recommends the Executive Director:

Recommendation 8: ensure that all fixed assets are tagged for easy identification in the fixed asset records.

Recommendation 9: ensure that a physical inventory is taken of all LARC fixed assets and results reconciled with the property records.

<u>Recommendation 10</u>: update the LARC Depreciation Schedule to include accurate and complete information as required by the *Fundamental Criteria* or Board approved LARC <u>Accounting Manual</u>.

<u>Recommendation 11</u>: ensure that LARC property records include elements as required by the *Fundamental Criteria*.

GENERAL LEDGER AND FINANCIAL CONTROLS

LARC's written policies and procedures over general ledger and financial controls appear to adhere to the *Fundamental Criteria* outlined in the LSC <u>Accounting Guide</u>. However, the grantee was not consistently following its own policies and procedures. LARC had inadequate segregation of duties over electronic banking transactions, journal entries, and the cash receipts log. We also noted inadequate recordkeeping, lack of approval signatures with dates for bank reconciliations, and untimely performance of bank reconciliations.

<u>Inadequate Segregation of Duties</u>

While conducting interviews with LARC management, we found that the grantee has inadequate segregation of duties over electronic banking transactions and journal entries. In addition, through testwork, we also noted inadequate segregation of duties with the cash receipts log.

> *Electronic Banking Transactions*: The OIG found that the Controller can authorize electronic banking transactions as well as reconcile bank accounts and the general ledger. Additionally, we found that the Executive Director can initiate and authorize electronic banking transactions.
>
> *Journal Entries*: The OIG found that there is no multi-layer approval process for the creation and posting of journal entries to the general ledger. The Controller was solely responsible for the creation and posting of journal entries to the general ledger.
>
> *Cash Receipts Log*: The OIG found that the Intake Specialist/Receptionist is responsible for opening the mail, maintaining the cash receipts log, and depositing checks in the bank. The OIG also found 10 of the 45 cash receipts log entries were signed by staff members other than the individual responsible for maintenance of the list, which included the Executive Director who is a check signer and the former Office Administrator who had bookkeeping duties.

LARC management stated that electronic transactions are handled the same as any other expenditure and that the payable must be approved by the Executive Director or the Board Chair prior to payment. LARC management stated that as a result of a small staff at LARC, there is no multi-layer approval process for the creation and posting of journal entries to the general ledger. Lastly, LARC management stated that the Executive Director would review checks before they are deposited and if the Intake Specialist/ Receptionist was not in the office, the Executive Director or former Office Administrator would open the mail.

The Accounting Guide, § 3-5.15: Electronic Banking, states the following: Management should prudently control, review and authorize employees who initiate and transmit electronic banking activities. The authorization should be documented and limited to appropriate employees. Electronic banking transactions should be recorded to the general ledger by an individual who does not initiate or transmit the electronic transactions. The Accounting Guide, § 3.5-6: General Journal, states that each entry to the general journal should be approved by an authorized individual. The Accounting Guide, § 3-5.4: Cash Receipts, states that accountability should begin with the individual opening the mail and initial accountability for cash should be established as soon as a cash item is received. This responsibility should be assigned to a person with no other bookkeeping duties. Lastly, the LSC Accounting Guide, Appendix VII, stipulates that the employee who opens the mail does not prepare that bank deposit and that employee also must list the receipts in detail in the cash receipts log and the record be used by someone independent of other accounting functions to verify the amount recorded in the general ledger and deposited in the bank.

Failure to systematically review, authorize, and monitor employees with electronic transaction responsibilities and failure to consider segregation of duties increases the risk that transactions could be initiated by inappropriate personnel without the knowledge of management or improperly disbursed. Incomplete and ineffective methods for collecting and recording electronic activity can also adversely affect the ability of the organization to accurately code, reconcile, post, and report the activities.

In addition, posting of journal entries to the general ledger without approval increases the possibility of inappropriate, unauthorized, or unsupported entries which may lead to a misrepresentation of the actual financial position of the grantee.

Further, an individual with record-keeping responsibilities who is responsible for establishing initial accountability for cash could misappropriate a check or money order and then adjust the records to cover irregularities.

Inadequate Recordkeeping

The OIG identified four of the 45 cash/check receipt entries in the cash receipts log did not have initials/signatures from the staff member who created the entry.

The OIG determined that limited space within the cash receipts log resulted in the four entries not having initials/signatures from the staff member accountable for the entry.

The Accounting Guide, § 3-5.4, states that accountability should begin with the individual opening the mail.

Inadequate recordkeeping may allow deposits to go unrecorded in the appropriate ledgers, which may result in inaccurate financial statements and management reports.

Inadequate Procedures and Processes Over Bank Reconciliations

To determine whether the grantee has internal controls in place over the bank reconciliation process, the OIG selected a stratified random sample of 12 bank reconciliations from active bank accounts comprised of a checking and money market account. We reviewed bank reconciliation records along with the bank statements from April, August, and November of 2019 and January, February, and July of 2020.

We noted the following inadequate procedures over bank reconciliations:

Lack of Signatures and Dates of Approval

The OIG found that 11 bank reconciliations were signed to evidence review and approval, however, the signatures were not dated as required by LARC's policy. We also found that one bank reconciliation did not have a signature of approval.

Untimely Bank Reconciliations

The OIG identified three bank reconciliations that were not performed timely. Two bank reconciliations for November 2019 were completed 32 days after receiving the bank statement. One bank reconciliation for July 2020 was completed 16 days after receiving the bank statement.

LARC management was not aware of the need to date bank reconciliations and found the missing signatures to be a result of oversight by management. LARC management stated that the former Controller would notify the Executive Director in person when a bank reconciliation could not be created within 14 days of receipt of the bank statement. LARC management also stated that the July 2020 bank reconciliation was delayed due to turnover between the Interim Controller and the current Controller.

The Accounting Guide, § 3-5.2(d), states that the reconciliation shall be reviewed and approved by a responsible individual. Such review shall be appropriately documented by signature and date. The LARC Accounting Manual states that completed bank reconciliations should be reviewed by the Executive Director, then initialed and dated.

The LARC Accounting Manual states "the Controller should reconcile each account promptly upon receipt of the bank statements. All accounts will be reconciled no later than 14 days after receipt of the monthly bank statements. In the event it is not possible to reconcile the bank statements in this period of time, the Executive Director should be notified by a written memo from the Controller or Office Administrator."

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

The OIG recommends the Executive Director ensure that:

Recommendation 12: no one employee can initiate and authorize payment of electronic banking transactions and that the individual responsible for reconciling bank accounts cannot authorize electronic banking transactions.

Recommendation 13: journal entries are approved by an authorized individual before being posted to the general ledger.

Recommendation 14: the individual opening the mail and recording cash/check receipts is independent of accounting functions and does not prepare the bank deposit.

Recommendation 15: all fields in the cash receipts log are properly documented by the individual opening the mail.

Recommendation 16: bank reconciliations are approved and evidenced by dated signatures in accordance with the policies outlined in the LARC Accounting Manual and the Accounting Guide.

Recommendation 17: bank reconciliations are performed within 14 days of receipt of the monthly bank statements, as outlined in the LARC Accounting Manual.

PAYROLL

The OIG reviewed LARC's payroll procedures to determine whether adequate internal controls were in place and whether the grantee's payroll processes adhered to LSC regulations and guidelines. We judgmentally selected six employee payroll records for January 15, 2019, August 15, 2019, June 15, 2020, and December 15, 2020.

The OIG found that the grantee's written policies and procedures over payroll adhered to LSC's *Fundamental Criteria*. However, for the six employees selected for testing, the grantee failed to maintain salary agreements for one employee and all other agreements lacked appropriate signatures. Additionally, there were discrepancies with timesheet records and a lack of approvals.

Salary Agreements Not Maintained

The OIG reviewed salary agreements in staff personnel files to determine if the gross amounts on the payroll registers matched the authorized salaries. Approved salary and wage rates were requested for the six individuals to ensure they were approved in writing by an authorized individual and documented in their personnel files. For five individuals, the grantee provided the salary agreements, however, they were not signed by the employee or by the Executive Director for 2019, and there were no salary agreements maintained for any of the employees for 2020. For the sixth individual, the Executive Director, the grantee did not obtain or maintain the salary agreement for 2019 or 2020. Salary agreements document the agreed-upon compensation for a given employee and are completed on an annual basis or upon employment between an employee and the grantee. In 2020, salaries for four employees increased one to two percent from 2019. The Executive Director maintained the same salary in 2019 and 2020, while another employee was not hired until 2020.

LARC management stated that the former Office Administrator was responsible for filing the salary letters and obtaining the signed copies, however, they could not be located when we requested them. LARC management also stated that 2020 was a challenging year and they did not send out the agreements to employees or maintain these documents in personnel files for the year.

The LSC Accounting Guide, § 3-5.5(a), states that "Each employee shall have a payroll/personnel file which includes, among other things, documentation concerning appointments, position reclassifications, salary information, evaluations, promotions, and terminations." The LARC Accounting Manual also stipulates that each personnel file should contain at a minimum, position, pay rates, and changes approved by the Executive Director.

Failure to approve or the absence of an appropriate wage and salary plan may result in excessive payroll adjustments, violation of minimum wage laws, union contracts, uncollectible advances, and unauthorized payroll adjustments.

Timesheet Discrepancies

The OIG reviewed time and attendance records for the six employees selected for review and determined that the grantee did not always follow its written policies and procedures. We requested 52 timesheets for review to ensure there were adequate employee and supervisory approval of time and attendance records. However, 13 timesheets were not provided for our review. Of the 39 timesheets reviewed, three were not approved by the supervisor, and one was not signed by the employee. Lastly, for the December 15, 2020 pay period reviewed, we noted a deviation in the payroll procedures. Instead of the timesheets being printed and reviewed, the Executive Director reviewed and approved the employee's timecards within the time-keeping system.

LARC management stated that the new process moving forward will be for remote employees to sign their timesheets electronically within the payroll system. LARC management also stated that timesheet discrepancies noted by the OIG must have resulted from lack of management oversight.

The Accounting Guide, Appendix II, "Description of Accounting Records: Retention Time for Nonprofit Records", stipulates that timecards and daily reports (after employee termination) should be maintained for at least four years. LARC's Accounting Manual states each week, timesheets are to be printed and signed by employees, approved by the supervisor, and submitted on the last day of the work week, or the following Monday, at the latest. The Executive Director reviews the payroll reports for inappropriate payees or unusual hours and approves timesheets as submitted by the Office Administrator. Further, the LSC Accounting Guide, § 3-5.5, stipulates that an attendance record or time record shall be maintained for each employee and shall be approved by the employee's supervisor.

Timesheet discrepancies and a lack of approvals can result in employees being underpaid for time worked or paid for hours or days not worked. Written policies and procedures serve as a method to document the design of controls and adequately communicate them to staff.

The OIG recommends the Executive Director ensure that:

Recommendation 18: current authorized salary and wage rates are maintained in employees' personnel files and signed by both the Executive Director and employee.

Recommendation 19: employee timesheets are obtained before processing payroll for payment, and that the timesheets are maintained for at least four years (after termination) as required by the LSC Accounting Guide (unless state law requires retention for a longer period).

Recommendation 20: appropriate supervisory approvals are obtained on all timesheets as required by LSC *Fundamental Criteria*.

Recommendation 21: the new process for approving employee timecards is formally documented in the Accounting Manual and approved by the Board.

MANAGEMENT REPORTING AND BUDGETING

The grantee's written policies regarding management reporting were comparable to the standards outlined in the *Fundamental Criteria*. However, LARC's Accounting Manual did not detail any documented policies or procedures pertaining to budgeting, as required by the *Fundamental Criteria*. Additionally, the OIG noted a lack of review and approval of management reports.

No Documented Budgeting Policies and Procedures

The OIG reviewed the LARC Accounting Manual for policies and procedures addressing budgeting and found that there were none documented. During interviews, the OIG found that LARC seems to have an adequate budgeting procedure currently in practice; however, their practices are not documented in their Accounting Manual.

LARC management agreed that budgeting procedures should be included in the grantee's Accounting Manual and stated that its exclusion was most likely due to management oversight.

The Accounting Guide § 3-4: Internal Control Structure (5) states, "each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*."

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

Management Reports Not Always Reviewed and Approved

The OIG judgmentally selected four management reports for review and noted the following issues:

- We were unable to determine when three of the four monthly management reports were prepared and given to the Executive Director for review and approval.
- None of the reports were signed or dated as to when they were prepared or approved.
- Two of the reports were not evidenced as being reviewed and accepted by the Executive and Finance Committees in accordance with LARC's Accounting Manual.

LARC management stated they did not see it as a requirement to sign and date reports but understood that reports would need dates and signatures as evidence of review and approval.

The LARC Accounting Manual stipulates that the Controller shall prepare a set of monthly financial reports for distribution to the Executive Director, and the Executive and Finance Committees, and the monthly statements should be reviewed by the Executive Director prior to distribution to the Finance and Audit Committee every month, as well as the full Board.

Irregularities that may be revealed through the review of monthly management reports may disclose improper transactions or unanticipated costs which might otherwise go unnoticed, adversely impacting management decisions.

The OIG recommends the Executive Director:

Recommendation 22: ensure written policies and procedures for budgeting are included in the grantee's Accounting Manual, adequately describe the processes and controls in sufficient detail, and are in accordance with LSC's Accounting Guide, regulations, and guidelines.

Recommendation 23: ensure that monthly statements are reviewed by the Executive Director prior to distribution to the Executive and Finance Committees every month and that approvals are documented when the monthly statements are finalized and reviewed by all parties.

COVID-19/CARES Act Funds

The OIG conducted interviews and reviewed grantee records to determine if LARC complied with LSC regulations and guidelines over the use of LSC COVID-19 funding, as well as whether LARC had adequate internal controls over the management and usage of those funds. Based on the results of the OIG's review and testwork, the grantee complied with LSC regulations and guidelines, and generally had adequate internal controls over the management and usage of LSC COVID-19 funds. However, the OIG found that the grantee did not provide timely quarterly progress reports to LSC regarding the use of the supplemental funding.

Untimely Quarterly Reports Submission

The grantee did not provide a quarterly report within 10 days after the end of the calendar quarter as stipulated by LSC Grant Terms and Conditions for the COVID-19 supplemental funds it received. During our review, we found that LARC provided a quarterly progress report to LSC management on July 18, 2020, which did not adhere to submission within 10 days after June 30, 2020. However, after the draft report was issued, the grantee provided supporting documentation to evidence that an extension was granted by LSC for the submission of the June 30, 2020, quarterly progress report. The deadline for the submission of this report was July 20, 2020. With this additional information, the OIG determined that the grantee met the deadline by submitting the report on July 18, 2020. This is no longer an issue; however, LARC provided a quarterly progress report to LSC management on October 16, 2020, which did not adhere to submission within 10 days after September 30, 2020. We consider the recommendation to be applicable since the September 30, 2020, quarterly progress report was not submitted due to management's scheduling error. Please refer to Appendix IV for additional information regarding the extension granted.

LARC management stated that they incorrectly updated their calendar which threw off the deadline for submission. LARC management also stated that this may have been due to management oversight since it was during a transition with hiring a new Controller.

LSC's COVID-19 Response Grant Special Grant Terms and Conditions, *Quarterly Reporting*, stipulates that all uses of funds from this Special Grant by the grantee or any subgrantee must be tracked and reported to LSC in quarterly reports, every three months, that are due within 10 days after the end of the calendar quarter. The CARES Act appropriation requires submission of quarterly reports to the new Pandemic Response Accountability Committee (PRAC). LSC submits the quarterly reports it receives from the grantee to PRAC for processing.

The failure to comply with funding source requirements can result in a reduction or loss of funding for the grantee. Untimely submissions of reports may result in erroneous decision making on the part of management. Also, irregularities that may be revealed through the timely review of reports may disclose improper transactions which might otherwise go unnoticed.

The OIG recommends the Executive Director:

Recommendation 24: ensure that special grant terms and conditions are followed, and quarterly reports are submitted within 10 days after the end of the calendar quarter.

<u>OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS</u>

603 Legal Aid (formerly Legal Advice and Referral Center) provided their responses to the OIG's Draft Report via email on October 5, 2021. 603 Legal Aid management agreed with 21 recommendations and partially agreed with three recommendations. 603 Legal Aid's responses are included in their entirety in Appendix IV.

The OIG considers 603 Legal Aid's comments and actions provided for Recommendations 1, 3, 18, and 23 as fully responsive and closed.

The OIG considers 603 Legal Aid's comments and proposed actions to Recommendations 4, 5, 7, 8, 9, 10, 11, 15, 16, 17, 19, 20, 21 and 22 as responsive. However, these 14 recommendations will remain open until the OIG receives the following items:

- Recommendation 4: The written contract for the service that did not have a formal contract documented as reported above.
- Recommendation 5: The documented sole source justifications that were reported above as not documented and maintained with two contracts.
- Recommendation 7: The new contracts or documentation indicating re-bidding and re-evaluating process is underway for the three contracts that were reported above.
- Recommendations 8 and 9: A copy of the most recent physical inventory with evidence of its reconciliation with the property records.
- Recommendation 10: A copy of the updated depreciation schedule that includes accurate and complete information as required by the *Fundamental Criteria*.
- Recommendation 11: A copy of the updated property records which includes all elements that are required by the *Fundamental Criteria*.
- Recommendation 15: A copy of entries made in the new Cash Receipts Log.
- Recommendations 16 and 17: The updated and board approved <u>Accounting Manual</u> detailing the new bank reconciliation process.
- Recommendations 19, 20 and 21: The updated and board approved <u>Accounting Manual</u> detailing the formal employee timesheet processing.
- Recommendation 22: The updated and board approved <u>Accounting Manual</u> detailing policies and procedures for budgeting.

The OIG considers 603 Legal Aid's comments and proposed actions to Recommendations 2, 6, 12, 13, 14, and 24 as partially responsive. These six recommendations will remain open until the OIG is provided a corrective action plan that specifically addresses the recommendations.

- Recommendation 2 will remain open until the OIG is provided with a corrective action plan that ensures all expense documentation is retained for an appropriate amount of time based on the grantee's retention policy.
- Recommendation 6 will remain open until the OIG is provided a corrective action plan to ensure contracts are only entered into by authorized and appropriate individuals.

- Recommendation 12 will remain open until the OIG is provided with a corrective action plan that ensures no one employee can initiate and authorize payment of electronic banking transactions and that the individual responsible for reconciling bank accounts cannot authorize electronic banking transactions.
- Recommendation 13 will remain open until the OIG is provided with a corrective action plan that ensures journal entries are approved by an authorized individual before being posted to the general ledger.
- Recommendation 14 will remain open until the OIG is provided with a corrective action plan that ensures the responsibilities of the Office Administrator is independent of accounting functions. At the time of the audit, the Office Administrator had bookkeeping duties.
- Recommendation 24 will remain open until the OIG is provided evidence that your most recent 2021 quarterly report was submitted within 10 days after the end of the calendar quarter.

Additionally, the OIG is referring questioned costs totaling $965 to LSC management for review and action. The LSC unallowable disbursement transactions included late fees, membership dues, and a missing disbursement and support documentation.

APPENDIX I – SCOPE AND METHODOLOGY

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

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

The OIG evaluated select financial and administrative areas and tested the related controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations during the period of January 1, 2019, through December 31, 2020.

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

To review and evaluate internal controls, the OIG designed and performed audit procedures to obtain sufficient and appropriate evidence to support conclusions over the design, implementation, and operating effectiveness of controls significant to the audit objective. Furthermore, the OIG conducted direct tests (including inquiry, observation, examination, and inspection of source documents) to determine whether the grantee's internal control system and policies and procedures complied with the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System* (*Fundamental Criteria*) contained in the Accounting Guide for LSC Recipients.

In accordance with Government Auditing Standards, the OIG assessed the reliability of LARC's computer-generated data. To determine whether the data is reasonably complete, accurate, and consistent, the OIG reviewed supporting documentation, conducted interviews, performed logical tests, traced to and from source documents, and reviewed selected system controls. The OIG determined the data as sufficiently reliable for the purposes of this report, except for Fixed Assets.

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

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

To evaluate and test internal controls over general ledger and financial controls, the OIG used a non-statistical stratified random sampling methodology to review bank reconciliations from the grantee's two bank accounts. Six months were randomly selected from the audit scope of 24 months. The months selected were April 2019, August 2019, November 2019, January 2020, February 2020, and July 2020; 12 reconciliations were requested for review.

To test the appropriateness of expenditures and the existence of adequate supporting documentation, the OIG reviewed disbursements made by LARC for transactions other than credit cards and payroll. We judgmentally selected a sample of 64 disbursement transactions, totaling $106,503. The transactions selected included LSC unallowable transactions, memberships, dues, employee reimbursements, office supplies, and suspicious vendors. The sample represented approximately 13 percent of the grantee's 2019 and 2020 check register, totaling $805,920, other than credit cards and payroll, during the period January 1, 2019, to December 31, 2020. To assess the appropriateness of expenditures, we reviewed invoices and supporting documentation, then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated based on the grant agreements as well as applicable laws and regulations and LSC policy guidance. The OIG reviewed the grantee's Accounting Manual and found no policies and procedures relating to credit cards. The OIG also confirmed through interviews that the grantee did not have credit cards.

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

To determine whether the grantee has adequate internal controls over payroll, we judgmentally selected six out of 12 employees listed on the staff roster. The employees selected were based on risk, position, and background information obtained through interviews. From our audit scope of 48 pay periods, we judgmentally sampled four pay periods, January 15, 2019, August 15, 2019, June 15, 2020, and December 15, 2020, and requested to review 52 timesheets. To assess whether payroll processes adhere to LSC regulations and guidelines, we reviewed the content and accuracy of payroll registers, the approvals by employees and supervisors of timesheets, and the agreements of salary payments to time and attendance records.

To evaluate and test internal controls over management reporting and budgeting, we selected four months (out of a universe of 24 months in our audit scope) from which to review monthly management reports. The months sampled included March 2019, August 2019, May 2020, and October 2020. The 2020 annual budget, prepared in 2019, was also sampled to be reviewed (out of two annual budgets prepared by the grantee during the audit scope). We reviewed prepared report packages and Board of Director meeting minutes to ensure that LARC is adhering to the policies and procedures outlined in their Accounting Manual and described by staff in the interviews.

To evaluate the adequacy of the cost allocation process and to determine whether the allocation methodology was reasonable and in compliance with LSC regulations and guidelines, the OIG discussed the process with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We reviewed selected transactions to determine if the amounts allocated were in conformity with the documented allocation process and if the transactions were properly allocated in the allocation spreadsheet and the general ledger.

Controls over the purchase, inventory, disposal, and recording of property and equipment were reviewed by examining current grantee practices in comparison with LSC regulations as well as policies outlined in the Accounting Guide for LSC Recipients.

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

The OIG reviewed the grantee's Accounting Manual and found no policies and procedures relating to client trust funds. The OIG also confirmed through interviews that the grantee did not have client trust funds, and therefore, the grantee did not have related policies and procedures.

Fieldwork was conducted remotely due to safety concerns related to the COVID-19 pandemic. Fieldwork was from January 25, 2021, through February 12, 2021. Interviews were conducted by remote video conferencing. Documentation for review was electronically submitted to us by the grantee as well as by LSC management. Documents reviewed pertained to the period January 1, 2019, to December 31, 2020.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objective. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective. The OIG assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the internal control components and underlying principles that we determined to be significant to the audit objective as shown in Appendix II – Assessment of Internal Control Components and Principles. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

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

APPENDIX II – ASSESSMENT OF INTERNAL CONTROL COMPONENTS AND PRINCIPLES

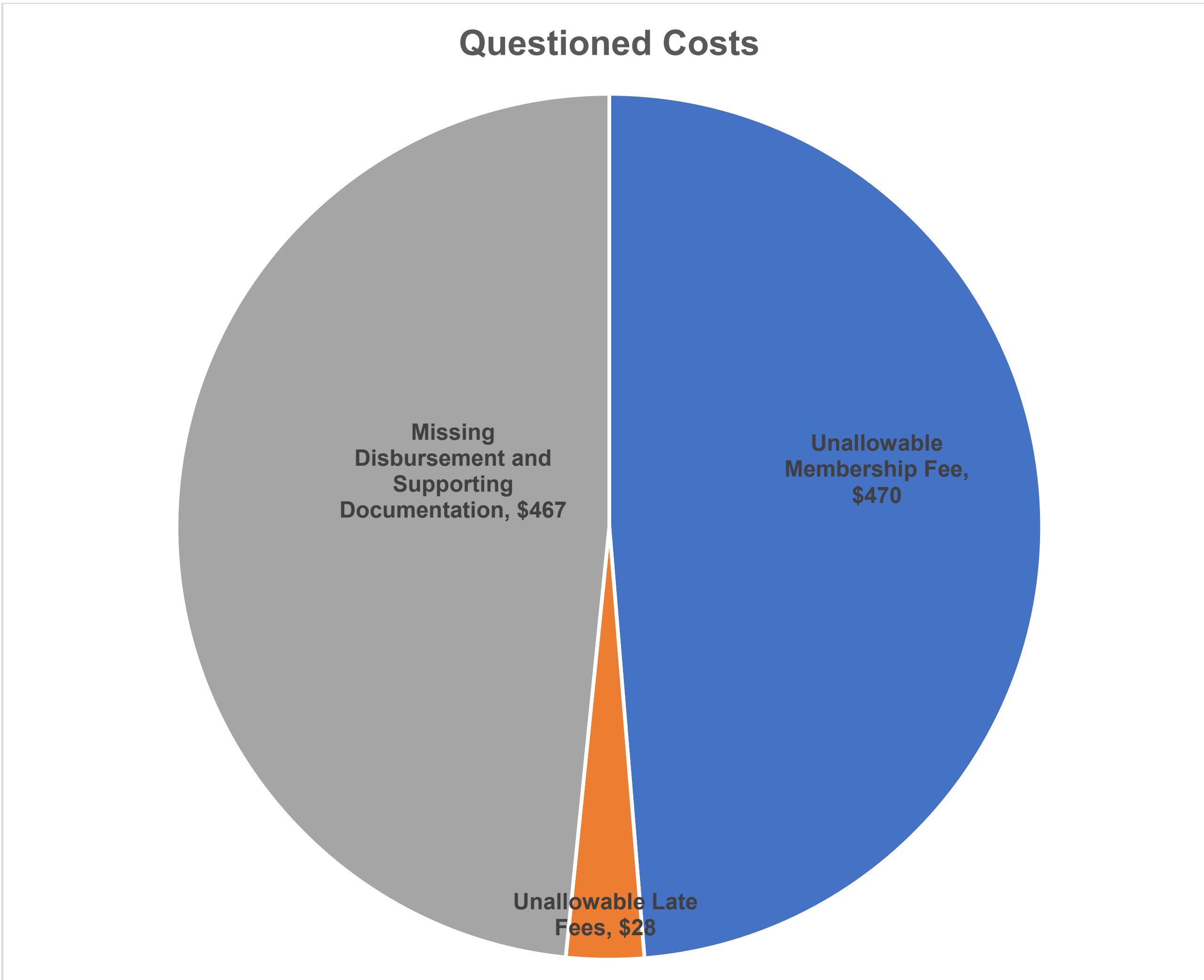
TABLE 9 – Internal Control Principles Significant/Material to the Audit Objective[1]

Internal Control Component		Principle	
Name	**Overview**	**Number**	**Description**
Control Environment	The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.	1	The oversight body and management should demonstrate a commitment to integrity and ethical values.
		2	The Oversight Body Should Oversee the Entity's Internal Control System
		3	Management Should Establish an Organizational Structure, Assign Responsibility, and Delegate Authority to Achieve the Entity's Objectives
Control Activities	Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.	10	Management Should Design Control Activities to Achieve Objectives and Respond to Risks
		11	Management Should Design the Entity's Information System and Related Control Activities to Achieve Objectives and Respond to Risks
		12	Management Should Implement Control Activities Through Policies

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

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

APPENDIX III – QUESTIONED COSTS REFERRED TO LSC MANAGEMENT BY TYPE



October 5, 2021

Roxanne Caruso
Assistant Inspector General for Audit
Office of Inspector General
Legal Services Corporation
3333 K Street NW
Washington, D.C. 20007

RE: Official Response - Internal Controls Audit at 603 Legal Aid
(f.k.a. Legal Advice and Referral Center)

Dear Ms. Caruso,

Enclosed for your review is the tracking form and supporting documentation relative to the responses provided for the audit period of January 2019 through December 31, 2020. The audit period included documentation and internal controls that were directed by the former executive director for the Legal Advice and Referral Center (LARC), Breckie Hayes-Snow. On May 5, 2021, Sonya Bellafant was hired as the new executive director for 603Legal Aid.

It is my understanding that staff shortages and transitioning to provide services remotely during the global COVID-19 pandemic culminated in the inadvertent altering of operations. Analogous to legal aid/service organizations in the country, LARC pivoted during the pandemic to address the legal needs of the community. Substantial staff changes crippled the financial management of the firm for a brief period as well. Specifically, the controller responsible for accounting unexpectedly passed away in January 2020. Additionally, the untimely retirement of the office manager, a key employee responsible for other internal duties pursuant to the segregation of financial obligations, resulted in a staffing shortage that adversely impacted internal controls.

LARC management was cited for not providing two quarterly reports within 10 days after the end of the calendar quarter as stipulated by LSC Grant Terms and Conditions for the COVID-19 Supplemental funds received. On July 6, 2020, Breckie Hayes-Snow sought clarification from LSC regarding the due date of the COVID quarterly report to ensure compliance of grant terms and conditions. Dina Shafey Scott confirmed that the July report was due on the 20th, despite the fact that Grantease reflected a July 10 deadline. LARC's quarterly report was filed on July 18th, 2 days prior to the deadline. As a result, the October report was filed late due to an error in scheduling caused by the change of deadline in July. For ease of reference, please see attached written response. Appendix 1

15 Green Street, Concord, NH 03301
Phone: 603-224-3333 | Fax: 603-224-6067

603 Legal Aid is committed to complying with the LSC Act of 1974 as amended and the Accounting Guide for LSC Recipients. Since May 2021, all reports and special conditions have been submitted timely or prior to the designated deadline. Following review of the internal controls and the recommendations, we have prioritized strengthening 603 Legal Aids' infrastructure which includes practices to formalize internal controls over disbursements, contracting, fixed assets, general ledger and financial controls, payroll, and management reporting and budgeting to ensure compliance with the accounting manual.

Since May 2021, several internal practices have been reviewed and updated. 603 Legal Aid has completed the following items:

1. Reviewed existing contracts to ensure that all contracts are current, properly documented to provide the statement of work, terms and the costs associated with each agreement. Sole source justifications were updated, and the required documentation noted in the appropriate file.

2. Contracts subject to re-evaluation or re-bidding process (every three years) were renegotiated following receipt of competitive bidding, and updated contracts were secured.

3. Contracts have been properly documented with appropriate dates to comply with the requisite three-year review.

4. Effective June 1, 2021, authorized salary and wage rates for every employee have been documented, signed by both the executive director and the respective staff member, and maintained in personnel files.

5. The management team has advised staff that all contracts must be signed by authorized and appropriate individuals exclusively.

6. An extensive review of the accounting manual is underway following an update to the segregation of financial duties since the June 1, 2021, merger of the LARC and the New Hampshire Bar Association Pro Bono Program.

7. A full physical inventory of fixed assets and a reconciliation with the property records is underway and completion is anticipated within sixty days to include the Fundamental Criteria required elements.

8. The segregation of the financial duties has been updated to reduce the risk of fraud and error.

9. Effective October 1, 2021, a new process has been initiated to document the review and approval of bank reconciliations.

10. The external controller, SquareTail CFO, has initiated a review process to review prior and new disbursements to ensure that permissible expenditures and transactions are properly documented with retained prior approvals.

11. Implementation of timesheet approval protocol including supervisory review pursuant to LSC guidelines and processing before payroll for payments has been completed.

12. The accounting manual has been updated to reflect the process for approving employee timesheets and Board approval is pending.

Moving forward, as executive director of 603 Legal Aid, the firm will continue to assess the adequacy of our select internal controls to ensure that costs are supported and permissible under the LSC Act of 1974 and the Accounting Guide for LSC recipients.

Please feel free to contact me with any questions or concerns at (603) 224-3333 ext. 603.

Sincerely,

Sonya Bellafant

Sonya G. Bellafant, Esq.
Executive Director

Enclosure: Appendix 1: Email Correspondence

Office of Inspector General
Legal Services Corporation

Recommendation Tracking

Grantee Name:	603 Legal Aid (formerly Legal Advice and Referral Center)
RNO:	130010

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

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

Recommendations	Response	Comments
Recommendation 1: Ensure that LSC unallowable costs are charged to funding sources other than LSC.	Agree ☐X Partially Agree ☐ Disagree ☐	The accounting staff that were involved in recording the unallowable costs are no longer with the organization due to the sudden death of the Controller in January 2020 and the retirement of the office manager in late 2020. 603 Legal Aid's current Controller has completed training on the applicable regulations and has a process in place to review all costs that are allocated to the Basic Field Grant to ensure that the allocation falls within the LSC regulations and is consistent with 603 Legal Aid's internal policies.
Recommendation 2: Ensure that adequate documentation for all expenses is retained for the recommended seven years in accordance with Appendix II of the LSC Accounting Guide.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid has a document retention policy in place that is reviewed annually.
Recommendation 3: Ensure that approvals for all disbursements are documented by an authorized individual prior to payment.	Agree ☐X Partially Agree ☐ Disagree ☐	The accounting staff that were involved in obtaining, documenting, approving and recording the unallowable costs are no longer with the organization due to the sudden death of the Controller in January 2020 and the retirement of the office manager in late 2020. 603 Legal Aid's current Controller has put a new system in place to ensure that disbursement approvals are obtained and properly documented.

Recommendation 4: Ensure that contracts are written and maintained for all business arrangements. The contracts should document the statement of work, the agreed upon terms, costs, and payments terms, and should be reviewed periodically to ensure that written terms are defined and current.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid's Executive Director has recently completed a review and renegotiation of existing contracts to ensure that the contracts are current and appropriately document the statement of work, terms, costs and the like.
Recommendation 5: Ensure that sole source justifications are fully documented, and the documentation is maintained with the contract files.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid's Executive Director has recently completed a review of existing sole source business arrangements to update the required documentation.
Recommendation 6: Ensure that contracts are only entered into by authorized and appropriate individuals.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid's Executive Director has reviewed this requirement with the management team.
Recommendation 7: Ensure that contracts are re-bid or re-evaluated every three years.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid's Executive Director recently completed a review of existing contracts to ensure that the contracts are current, and a re-bidding process is underway where needed.
Recommendation 8: Ensure that all fixed assets are tagged for easy identification in the fixed asset records.	Agree ☐x Partially Agree ☐ Disagree ☐	The full inventory is underway and includes the tagging of items. It will be completed in the next 60 days.
Recommendation 9: Ensure that a physical inventory is taken of all LARC fixed assets and results reconciled with the property records.	Agree ☐X Partially Agree ☐ Disagree ☐	A full physical inventory of all program property is underway – each item will be identified, tagged, and reconciled with the existing property records in the next 60 days.
Recommendation 10: Update the LARC Depreciation Schedule to include accurate and complete information as required by the Fundamental Criteria or Board approved LARC Accounting Manual.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid's Controller is updating the depreciation schedule to ensure that the required elements.
Recommendation 11: Ensure that LARC property records include elements as required by the Fundamental Criteria.	Agree ☐X Partially Agree ☐ Disagree ☐	A full inventory of 603 Legal Aid property will be memorialized to include fields identifying the origin of assets donated or purchased, the donor or funding source, salvage value (if any), and warranty period within the next 60 days.

Recommendation 12: Ensure that no one employee can initiate and authorize payment of electronic banking transactions and that the individual responsible for reconciling bank accounts cannot authorize electronic banking transactions.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid is reviewing its policies and practices to determine how best to implement this recommendation.
Recommendation 13: Ensure that journal entries are approved by an authorized individual before being posted to the general ledger.	Agree ☐ Partially Agree ☐X Disagree ☐	603 Legal Aid's Controller is, and always has been, authorized to post journal entries. The Executive Director has access to the general ledger and can review any and all entries.
Recommendation 14: Ensure that the individual opening the mail and recording cash/check receipts is independent of accounting functions and does not prepare the bank deposit.	Agree ☐X Partially Agree ☐ Disagree ☐	The office manager/admin assistant opens the mail to record cash/checks in a log. Accounting functions are performed by controller.
Recommendation 15: Ensure that all fields in the cash receipts log are properly documented by the individual opening the mail.	Agree ☐X Partially Agree ☐ Disagree ☐	The current log was a carryover from the retired LARC bookkeeper. A formal cash receipts log will be purchased to ensure that the appropriate fields are available to capture detailed record keeping.
Recommendation 16: Ensure that bank reconciliations are approved and evidenced by dated signatures in accordance with the policies outlined in the LARC Accounting Manual and the Accounting Guide.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid has implemented a new process to document the review and approval of bank reconciliations effective June 1,2021.
Recommendation 17: Ensure that bank reconciliations are performed within 14 days of receipt of the monthly bank statements, as outlined in the LARC Accounting Manual.	Agree ☐ Partially Agree ☐X Disagree ☐	603 Legal Aid has an external controller. USPS delay for receipt of bank statements has previously delayed the reconciliation process. The accounting manual has been amended to allow for a maximum of 21 days.
Recommendation 18: Ensure that current authorized salary and wage rates are maintained in employees' personnel files and signed by both the Executive Director and employee.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid was founded on June 1, 2021. The executive director documented salary and wage rates for each staff member. Staff members and the executive director signed the documents within each employees' personnel file on about June 1, 2021.
Recommendation 19: Ensure that employee timesheets are obtained before processing payroll for payment, and that the timesheets are maintained for at least	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid implemented formal employee timesheet processing, subject to supervisory approval effective Oct. 1, 2021.pursuant to the accounting manual.

four years (after termination) as required by the LSC Accounting Guide (unless state law requires retention for a longer period).		
Recommendation 20: Ensure that appropriate supervisory approvals are obtained on all timesheets as required by LSC Fundamental Criteria.	Agree ☐x Partially Agree ☐ Disagree ☐	603 Legal Aid implemented formal employee/supervisor review and approval of all timesheets as required by LSC fundamental criteria effective Oct. 1, 2021.
Recommendation 21: Ensure that the new process for approving employee timecards is formally documented in the Accounting Manual and approved by the Board.	Agree ☐x Partially Agree ☐ Disagree ☐	The process for approving employee timesheets has been formally documented in the accounting manual as approved by the board.
Recommendation 22: Ensure written policies and procedures for budgeting are included in the grantee's Accounting Manual, adequately describe the processes and controls in sufficient detail, and are in accordance with LSC's Accounting Guide, regulations, and guidelines.	Agree ☐x Partially Agree ☐ Disagree ☐	The process for 603 Legal Aid is currently under review and will be updated within the Accounting Manual.
Recommendation 23: Ensure that monthly statements are reviewed by the Executive Director prior to distribution to the Executive and Finance Committees every month and that approvals are documented when the monthly statements are finalized and reviewed by all parties.	Agree ☐X Partially Agree ☐ Disagree ☐	603 Legal Aid's Controller sends the financial statements directly to the Executive Director for review, approval and signature. The executive director then distributes the statements to the appropriate governing bodies (Board of Directors and the Executive Committee). The dissemination to the governing bodies is documented via monthly approved board meeting minutes.
Recommendation 24: Ensure that special grant terms and conditions are followed, and quarterly reports are submitted within 10 days after the end of the calendar quarter.	Agree ☐ Partially Agree ☐X Disagree ☐	On July 6, 2020, Breckie Hayes-Snow sought clarification from LSC regarding the due date of the COVID quarterly report. Dina Shafey Scott confirmed that the July report was due on the 20th, LARC's quarterly report was filed on July 18th, 2 days prior to the deadline. The October report was filed late due to an error is scheduling caused by the change of deadline in July. (see attached written response)

Name and Title	Sonya G. Bellafant, Esq., Executive Director
Signature and Date	Sonya Bellafant