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 29, 2017

Ms. Lilian Moy
Executive Director
Legal Aid Society of Northeastern New York.
55 Colvin Avenue
Albany, NY 12206

Dear Ms. Moy

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Legal Aid Society of Northeastern New York. Your comments are included in the final report as Appendix II.

The OIG considers your proposed actions to address Recommendations 1 through 10 as responsive. The actions planned by grantee management to address the issues and revise and update its Accounting Manual should correct the issues identified in the report.

However, Recommendations 2 and 8 will remain open until the grantee has updated its Accounting Manual and obtained the required Board of Directors' approval or fully implemented their planned actions related to the findings.

Recommendations 1, 3 to 7 and 9 and 1O are considered closed.

Please provide us with your response to close out the 2 open recommendations along with the revised Accounting Manual within six months of the date of this final report.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings
Vice President for Grants Management

America's Partner For Equal Justice

Legal Aid Society of Northeastern New York
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President

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Nicholas Pignone, Esq.
Patricia L.R. Rodriguez, Esq.
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Jenifer Wharton, Esq.
Michelle Wood

LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

FINAL REPORT ON

SELECTED INTERNAL CONTROLS

LEGAL AID SOCIETY OF

NORTHEASTERN NEW YORK, INC

RNO 233010

Report No. AU 17-11

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 Aid Society of Northeastern New York, Inc. (LASNNY or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Albany, NY 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 recipients' 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

The Legal Aid Society of Northeastern New York, incorporated in 1923, is a non-profit law firm providing free civil legal aid to low income upstate New Yorkers. LASNNY handles civil, non-criminal cases involving domestic violence, family law, housing, public benefit and impact advocacy. There are five offices that serve 16 counties and the St. Regis Indian Reservation.

LASNNY is funded by a variety of sources including the Legal Services Corporation, federal agencies, state and local governments, charitable donations, foundation grants and volunteer services of private lawyers, law students and others. The audited financial statements for calendar year 2016 show LASNNY received a total of $9,432,136 in overall funding. Approximately 14 percent or $1,276,410 of the grantee's total support was provided by LSC.

OBJECTIVE

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

AUDIT FINDINGS

To accomplish the audit objective, the OIG reviewed and tested internal controls related to cash disbursements, credit cards, contracting, fixed assets, cost allocation, derivative income, internal reporting and budgeting, general ledger controls, employee benefits and payroll. While some of these areas had adequate written policies and procedures, some controls need to be strengthened and formalized in writing as they relate to specific grantee operations and oversight. There were also some areas where the practices need improvement to be in accordance with LSC *Fundamental Criteria.* The OIG identified the following areas that need improvement**.**

FIXED ASSETS

Property Records

The grantee's depreciation schedule (property record) needs improvement. The depreciation schedule did not contain the required fields and did not always identify specific assets and their locations. As a result, the property record was not adequate in tracking fixed assets and equipment. The grantee's property record did not include identification numbers/serial numbers, tags or inventory control numbers, and location of the asset as required by LSC's *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. The depreciation schedule also lumped certain assets together and they were not specifically identifiable.

We selected a total of 70 property items for testing. Of the 70 items, 53 were selected from the depreciation schedule, two (2) were selected from the outsourced information technology company inventory records and 15 from the master inventory records maintained by the grantee. To verify the records' accuracy, the OIG attempted to trace the items from the property records to their physical location. The OIG could not locate 52 out of 53 items selected from the depreciation schedule due to insufficient identifying information. The items consisted of computers, laptops, phone systems and printers.

The grantee provided two supplementary property records to assist us in locating its assets. Those records were an information technology company's records containing mostly computer and IT type assets. The OIG was able to locate all the 17 items that were sampled from the information technology company inventory records and the master inventory listing.

The grantee has recently implemented a new tagging system to track items, but it was implemented after the depreciation schedule was last updated. The new tagging system software generates and prints out the tags on formatted label paper. The tagging software keeps track of the inventory as the labels are generated so it won't duplicate the numbers. As of the audit period, the grantee had not begun to fully utilize the new system.

The Fiscal Director and Director of Facilities both stated the items on the depreciation schedule were more historical in nature and that it wouldn't be possible to locate the items on that schedule since they were not specifically identifiable. Because some of the assets still had serviceable life, and could still be used, they were reluctant to delete any data on items still in existence.

Property records account for fixed assets and equipment. The *Fundamental Criteria* Section 3-5.4 (c) lists all the elements that should be included in the property records. Section 2-2.4 of the LSC Accounting Guide notes grantees 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.

Failure to maintain adequate property records may result in the inability to fully account for fixed asset purchases, and to support depreciation amounts and property asset balances.

Recommendation 1*:* The Executive Director should update property records to include the required elements of a property record according to the *Fundamental Criteria*, ungroup assets so that specific asset items can be identified and fully utilize the new inventory tagging system.

WRITTEN POLICIES AND PROCEDURES

Overall, the grantee's written policies and procedures in the areas of credit cards, general ledger and financial controls, derivative income, budgeting, fixed assets and contracting need to be strengthened or established to properly describe the controls and procedures. Section 3-4 of the LSC Accounting Guide states that each grantee must develop a written accounting manual that describes the specific procedures to be followed in order to comply with LSC's *Fundamental Criteria*. The grantee was either unaware of the detail required or didn't realize the need for the policies in the areas mentioned below.

Without proper written policies and procedures, there could be a lack of transparency and consistency in the application methodology. Approved and documented policies and procedures represent grantee management's intentions on the handling of processes and serve as a method of documenting the design of controls, communicating them to the staff and ensuring that proper controls are followed.

Credit Cards

The grantee's Accounting Manual was mostly comparable to the *Fundamental Criteria* for policies and procedures related to credit cards, however, the policy does not address the activation and deactivation of a cardholder account. According to the Fiscal Director, there is an office procedure for turning in credit cards, along with other LASNNY belongings, but the policy was not in writing.

Contracting

The contracting section in the grantee's Accounting Manual does not fully adhere to the *Fundamental Criteria*. The policy needs to be improved in the following areas:

- It does not state that all documents such as bids and any other process used for each contract action are to be retained and kept with the contract files in a central location.
- The Accounting Manual groups all types of contracts together with the same procedures in place for procurement at the $10,000 threshold as well as contracts under that threshold.
- The grantee's contracting policies and procedures do not state when the Board of Directors should be notified or give approval.

Internal Reporting and Budgeting

The grantee's Accounting Manual does not include policies for budget formulation procedures, timing of the budget process, budgeting responsibilities and the budget approval process, although the practices in place are adequate.

General Ledger and Financial Controls

The grantee's Accounting Manual does not include a specific time frame in which outstanding checks will be investigated and resolved. According to the Fiscal Director, the practice is that checks outstanding for 60 days are investigated. The OIG found checks that were outstanding much longer than 60 days that had not been investigated.

Fixed Assets Policy

The grantee's written fixed assets policies and procedures mostly adhere to the *Fundamental Criteria* with the exception that the there is no written policy for the inventory and disposal of items not capitalized that may contain sensitive information. The Fiscal Director stated there is an office procedure for inventorying and disposing of those items. The grantee disposes of electronic devices by using a bonded vendor to wipe computers clean before recycling them and other small items are disposed of in accordance with the city code. The grantee does include items valued at less than $5,000 (capitalization threshold) that may contain sensitive information such as computers and laptops.

Derivative Income

The grantee's written policies and procedures adhere to the *Fundamental Criteria* for the accounting and allocation of attorneys' fees. However, the grantee's Accounting Manual does not include the written methodology on how other forms of derivative income are allocated, including interest income and rental income. Our test work revealed that the grantee does collect interest and rental income and the allocation practice appears reasonable and in accordance with LSC's *Fundamental Criteria*.

Recommendation 2: The Executive Director needs to establish or update written policies which are approved by the Board of Directors for:

a. Credit Cards (activation/deactivation)
b. Contracting
c. Internal Reporting and Budgeting
d. General Ledger and Financial Controls (outstanding checks)
e. Fixed Assets
f. Derivative Income (rental income and interest income policy)

The written policies put into place should adequately describe the current grantee processes and controls in sufficient detail in accordance with LSC's Accounting Guide and *Fundamental Criteria.*

CONTRACTING

Contracts Documentation Not Centrally Filed

All nine contracts tested were not centrally filed with the related supporting documentation of bids, quotes, selection criteria and sole source justifications. The Executive Director explained that the Director of Facilities was responsible for maintaining maintenance and building contracts because this was related to his job duties and responsibilities; the Executive Assistant was responsible for maintaining all other contracts. The Staff Accountant also maintained a copy of contracts. Contract documentation is not maintained in a central location because the people responsible for filing maintain their own separate filing systems.

The *Fundamental Criteria* provides that 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. Furthermore, it provides that the type and dollar value of contracts that require competition should be included in the grantee's policies. Documents to support competition should be retained and kept with the contract files.

Proper documentation helps ensure that approved contracts are awarded in accordance with established procedures.

Contracts Lack Information and Approvals

Three of the nine contracts tested lacked certain terms of the contract, such as start and/or end dates. One such contract was a janitorial contract, but appeared to be more of an invoice than an actual contract. That contract has been terminated. The other two contracts were for the new roof service and another janitorial contract. The LSC Accounting Guide stipulates that contracts should be written so that services to be rendered are clearly defined.

Two of the contracts tested did not have signatures showing grantee approval. The contracts were for janitorial services, which contract has been terminated, and the service for a new roof. The grantee's Accounting Manual states that all contracts should be signed by the Executive Director or his/her designee and that if it requires approval from LSC, it will be obtained prior to execution.

The grantee stated the reason for the insufficiency of the contract information was unknown at that time.

Improper contracting actions could be entered into without the proper approval and subject the grantee to questioned cost proceedings. Contracting is a high-risk area for potential abuse. If not properly conducted, weak contracting practices can result in a waste of scarce funds and subject the grantee to questioned cost proceedings.

Recommendations: The Executive Director should:

Recommendation 3: ensure that all documentation for each contract and contract action is filed in a central location.

Recommendation 4: ensure that all relevant contract terms are stipulated in the contract before it is executed.

Recommendation 5: ensure that signatures are documented on the contracts showing that it was approved by the grantee.

GENERAL LEDGER AND FINANCIAL CONTROLS

Outstanding Checks

There were outstanding checks greater than 60 days that had not been investigated and resolved, in accordance with the grantee's practice. According to the Fiscal Director, some of the checks are outstanding because the grantee likes to give people appropriate time to cash their checks. He stated that he has followed up, and sometimes the persons are holding on to the checks. During our test work, the OIG found that the grantee had a number of outstanding checks greater than 6 months that had not been investigated.

No action taken on outstanding checks for more than 60 days is a violation of the grantee's practice and could result in outstanding checks lingering and not being cashed and possible violations of the state's unclaimed property laws.

Recommendation 6: The Executive Director should ensure that grantee personnel adhere to their policy of investigating checks 60 days outstanding or reevaluate their current policy.

DISBURSEMENTS

Missing Approvals

The OIG noted that of the 217 transactions sampled, five transactions totaling $1,353.50 did not receive the requisite approval. One transaction was for a travel reimbursement and four transactions were for purchase orders that were not approved.

According to Section 3-5.4, Cash Disbursements, of the LSC Accounting Guide, approval should be required at an appropriate level of management before a commitment of resources is made.

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

According to the Executive Director and Fiscal Director, the five transactions were not approved due to management oversight.

Lack of Segregation of Duties

There was a lack of segregation of duties over the Fiscal Director and Staff Accountant's access to the master vendor list. The Staff Accountant maintains the list and both the Fiscal Director and the Staff Accountant have full access to add, edit and delete vendors within the list without review. The OIG also found that the list has also never been purged. According to the Fiscal Director, it is difficult having complete separation of duties when only two people are responsible for Accounting.

The LSC Accounting Guide states 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, 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.

Persons having dual responsibilities like maintenance of the master vendor list and performing accounts payable functions may be involved in fraudulent activities that may go undetected. This could result in unauthorized vendors being set up to receive payments or address changes resulting in payments sent to incorrect locations.

Recommendations: The Executive Director should ensure:

Recommendation 7: that the appropriate approvals are made on all disbursements, particularly purchase orders.

Recommendation 8: that the grantee segregates the duties of the person maintaining the master vendor file and making payments, or consider having another authorized person review the master vendor list and all related edits and changes to the list on a periodic basis.

CREDIT CARDS

Inadequate Support

The OIG found that 25 disbursements totaling $3,170.75, out of 130 transactions selected for sampling that totaled $18,595.13, were missing receipts or other support. The amounts allocated to LSC were immaterial to the overall total of the disbursements with missing documentation. According to the Staff Accountant, the receipts for the charges were not found because they were not submitted.

The *Fundamental Criteria* states that the receipt of goods and accuracy of invoices should be verified and documented. The grantee's Accounting Manual also has written policies and procedures stipulating that all receipts and online acknowledgements of purchases in lieu of a receipt must be promptly turned in. Not complying with the policies may result in misappropriation and abuse of funds.

No Documentation of Credit Card Issuance

The OIG found that employees are not required to sign a user agreement acknowledging receipt of a credit card and that they will abide by the terms of usage. According to the Fiscal Director, there is only one account but four people have access to the credit card and all are aware of the parameters regarding the use of the card. He concurred that it has never been documented and that Management was not aware this needed to be documented.

The LSC *Fundamental Criteria* stipulates that financial controls should be clearly defined and evidenced by documentation identifying authority delegated to supervisory and other personnel to initiate and approve financial transactions.

Properly controlling the use and documenting the issuance of credit cards through written policies and sound recordkeeping practices reduces the potential for misuse and protects the grantee's limited assets.

<u>Recommendations</u>: The Executive Director should**:**

<u>Recommendation 9</u>: ensure that cardholders follow the stated policy regarding the turning in of hard copy or online receipts for all transactions paid for with the credit card.

<u>Recommendation 10</u>: obtain an agreement in writing for each current credit cardholder stipulating that it is that person's responsibility to use the card for business purposes only, that no misuse will occur and said cardholder will be held accountable for any personal charges made on the card.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

The grantee agreed with all the recommendations in the report. The grantee however, commented about Recommendation 1 that the audit team mistakenly used the depreciation schedule as a property record. They stated that the depreciation schedule is not used to track property assets and therefore does not have all the elements required by the *Fundamental Criteria*. They also stated that they implemented a property assets tracking software that will track property with customized, preprinted bar coded pretty tags with unduplicated property numbers. The software is just in its initial stage of implementation.

For recommendations 2 through 10, grantee management stated they have or will revise policies and procedures or have instituted practices to ensure compliance with their policies and practices.

OIG EVALUATION OF GRANTEE MANGEMENT COMMENTS

The OIG considers the comments and actions taken or to be taken to be responsive to our recommendations. In response to Recommendation 1, the grantee did not have a system in place at the time of our visit to specifically identify each LASNENY asset. From the response, it appears that a process will be put in place to specifically identify each asset with corresponding information and tagging to enable tracking. This satisfies the intent of our recommendation. For Recommendations 2 through 10, the OIG accepts the grantee's corrective actions. Therefore, Recommendations 3, 4, 5, 6, 7, and 9 are considered closed. Recommendations 1, 2, 8 and 10 will remain open until the OIG receives a final version of the approved policies and the related corrective actions have been implemented.

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 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. 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* 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.

The OIG 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 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 employee and vendor files were reviewed. The sample consisted of 155 disbursements and credit card transactions totaling $459,133.56. The sample represented approximately 10 percent of the $4,550,949.83 disbursed for expenses other than payroll during the period January 1, 2016 to February 28, 2017.

To evaluate and test internal controls over contracting, fixed assets, internal management reporting and budgeting, cost allocation, general ledger and financial controls, employee benefits and payroll, the OIG interviewed appropriate program personnel, examined related policies and procedures and selected specific transactions to review for adequacy.

Controls over derivative income were reviewed by examining current grantee practices and reviewing the written policies contained in the grantee's accounting manual, where applicable.

The on-site fieldwork was conducted from June 5, 2017 through June 9, 2017. Our work was conducted at the grantee's program administration office in Albany, NY and at LSC headquarters in Washington, DC. We reviewed documents pertaining primarily to the period January 1, 2016 through February 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.

Legal Aid Society
NORTHEASTERN NEW YORK

55 Colvin Avenue, Albany, New York 12206
(800) 462-2922 o (518) 462-6765 o Fax: (518) 427-8352

This office serves Albany, Columbia, Greene, Rensselaer and Schenectady Counties.

Thomas J. O'Connor, *President* | Lillian M. Moy, *Executive Director* | Peter D. Racette, *Deputy Director* | Wendy Wahlberg, *Deputy Director*

September 15, 2017

John M. Seeba
Assistant Inspector General for Audit
Office of Inspector General
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558

Dear Mr. Seeba:

We take this opportunity to thank Michael Hart, Audit Manager, and his entire team for the courtesies and professionalism extended to us during their visit and correspondence with us. This is our response to the Draft Report issued on the results of the audit on Selected Internal Control at the Legal Aid Society of Northeastern New York during the week of June 5, 2017.

Recommendation 1: The Executive Director should update property records to include the required elements of a property record according to the Fundamental Criteria, ungroup assets so that asset items can be identified and fully utilize the new inventory tagging system.

Response: The OIG mistakenly treated the depreciation spreadsheet as our property record. LASNNY tracks capitalized nonexpendable items with a cost in excess of $5,000 and with a useful life of more than one year on an Excel spreadsheet. This spreadsheet has all the criteria listed in The Fundamental Criteria Section 3-5.4 (c) of LSC Accounting Guide for LSC Recipients 2010 edition. In addition, it also has Balance Sheet General Ledger numbers specific to type of item and locations. The source document for the information on the depreciation schedule is the invoice that provides the quantity, location and the total purchase amount. Additional columns will be added to the depreciation schedule to include quantity, unit price and the loss of undepreciated assets. There is no individual information to ungroup as suggested in the draft response. This spreadsheet has been specifically designed only to track and depreciate assets that meet the threshold. It has never served as the required property record.

On the other hand, LASNNY has assets that do not meet the depreciable asset threshold. Inventory of those items, as well as items that do meet the depreciable threshold need to be tracked. To do so, LASNNY has implemented property assets tracking software that tracks property with customized, preprinted bar coded property tags with unduplicated property numbers. The software is just in its initial stage of implementation. Additional information tracking fields will be added such as serial numbers (as applicable). Due to the initial stage of implementation, during the audit the full potential of the software could not be realized. Once the software is fully implemented by the end of 2017, LASNNY can track and identify all property assets at all locations. The software will also be able to provide support to complete a physical inventory every two years.

The draft report, under Fixed Assets/Property Records, mentions that during the audit 70 property items were selected for testing. Out of that selection, 53 were selected from the depreciation schedule of which 52 items could not be located directly on that schedule. However, all the selected property was on hand and viewed by your tearrt. The items consisted of computers, laptops, phone systems and printers. LASNNY refutes this claim noting that the depreciation schedule is not our tool to track property assets but rather an accounting tool to track and depreciate property assets that meet the $5,000 threshold with a life of more than one year. Using this tool, LASNNY records and depreciates the value on its Balance Sheet of assets meeting the threshold. As mentioned, new property assets tracking software has been implemented and its sole purpose is to keep track of all property assets systematically. As this new system is in its initial stage, we sought the help of the tracking tool that the outsourced IT support company keeps for all computers, laptops and printers. The OIG's reference to the phone system actually refers to cell phones provided to select staff to conduct official business. The cell phones are small equipment with substantially small value and a very short life span that LASNNY decided are too inconsequential to track.

LASNNY's effort has been to modernize the tracking of property assets and we are confident that the new software will enable us to accomplish that objective. LASNNY recognizes that this organization has been in operation for many years and has been very prudent in preserving its assets, especially furniture. Therefore, the depreciation schedule contains assets that have been fully depreciated but still maintain a useful life and continue to remain on the schedule. However, every year a general assessment is made as to whether any of those items are currently used, and **if** not, they are written off. With the new software, many of the old items have been grandfathered in and will be much easier to track. The depreciation schedule is something the current staff inherited and have constantly improved.

Recommendation 2: The Executive Director needs to establish or update written polices which are approved by the Board of Directors for:

a. Credit Cards (activation/deactivation)
b. Contracting
c. Internal Reporting and Budgeting
d. General Ledger and Financial Controls (outstanding checks)
e. Fixed Assets
£ Derivate Income (rental income and interest income policy)

Response: LASNNY's Financial Policy and Procedures Manual was established as a mirror image of LSC's Accounting guide. As always these are considered living documents and over the years as LSC's Accounting Guide was revised, LASNNY also updated its manual. The most recent update was done in March 2016. Acknowledging the recommendations set forth in the OIG draft report, LASNNY is in the process of updating all of the areas stated in Recommendation 2. Once the updates are approved at the upcoming board meeting on September 25, 2017 an official copy will be provided. Meanwhile, we share a draft version for the team's review. We would appreciate your comments before our meeting on September 25, 2017, if possible.

Recommendation 3: The Executive Director should ensure that all documentation for each contract and contract action be filed in a central location.

Response: The Executive Director's Executive Assistant will be the designated person responsible for maintaining all contract documents and have all contract copies retrievable on demand.

Recommendation 4: The Executive Director should ensure that all relevant contract terms are stipulated in the contract before it is executed.

Response: A streamlined process and policy has been enacted and all relevant staff have been advised to adhere.

Recommendation 5: The Executive Director should ensure that signatures are documented on the contracts showing that it was approved by the grantee.

Response: A streamlined process and policy has been enacted and all relevant staff have been advised to adhere. Moving forward no contracts will be implemented without the signed approval of the Executive Director or his/her designee.

Recommendation 6: The Executive Director should ensure that grantee personnel adhere to their policy of investing checks 60 days outstanding or reevaluate their current policy.

Response: All checks for longer than 60 days as of today have been resolved by contacting the payees to cash those checks or if lost, to re-issue replacement checks. All replacement checks and original checks have been followed through and all have been cashed. The current 60 days' policy appears to be insufficient and therefore the policy will be updated to 180 days and will be submitted for board approval at the upcoming board meeting. The accounting department will be actively vigilant looking out for outstanding checks during the bank reconciliation process. Outstanding checks will be identified and promptly resolved.

Recommendation 7: The Executive Director should ensure that the appropriate approvals are made on all disbursements, particularly purchase orders.

Response: A streamlined process and policy has been enacted and all relevant staff have been advised to adhere. Approvals will be mandatory on all purchases.

Recommendation 8: The Executive Director should ensure that the grantee segregates the duties of the person maintaining the master vendor file and making payments, or consider having another authorized person review the master vendor list and all related edits and changes to the list on a periodic basis.

Response: The only time a new vendor's profile is set-up in the accounts payable module of the accounting software is when a new vendor is used for purchase of goods or services or when payment of financial assistance is made on behalf of a grant. In all cases a completed IRS Form W-9 is solicited from the vendor for tax purposes prior to any checks being issued. Also, the purchase is accompanied by an approved Purchase Order or Check Request. LASNNY will include an approval box on both instruments acknowledging the approval to set up the new vendor. See attached draft.

Recommendation 9: The Executive Director should ensure that cardholders follow the stated policy regarding the turning in of hard copy or online receipts for all transactions paid for with the credit cards.

Response: A streamlined process and policy has been enacted and all relevant staff have been advised to adhere. All credit cardholders will tum in their receipts to the accounting department within two business days. If charges occurred during an out of town event, then receipts will be turned in the second business day upon return.

Recommendation 10: The Executive Director should obtain an agreement in writing for each current credit cardholder stipulated that it is that person's responsibility to use the card for business purposes only, that no misuse will occur and said cardholder will be held accountable for any personal charges made on the card.

Response: An agreement will be executed by current credit cardholders stipulating that it is the responsibility of the cardholder to ensure that the card is used only for LASNNY's business. If accidental use occurs for non-business related charges, the cardholder shall immediately reimburse LASNNY for the full extent of those charges and tum in the receipts in support. See attached Credit Card Agreement. Once the Board approves the credit cardholder agreement, the agreement will be signed by all cardholders within ten days.

Please let us know if you have any further questions.

Sincerely,

Lillian M. Moy
Executive Director

Shamim Huq
Fiscal Director

c.c.
Thomas J. O'Connor, Esq.
Sanjeeve DeSoyza, Esq.