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Legal Services Corporation

Inspector General
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July 8, 2020

Mr. Lewis Creekmore
Executive Director
New Mexico Legal Aid
505 Marquette Avenue NW
P.O. Box 25486
Albuquerque, NM 87125

Dear Mr. Creekmore:

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit on Selected Internal Controls at New Mexico Legal Aid (NMLA). Appendix III of the final report includes NMLA's comments to the draft report in their entirety.

The OIG considers proposed actions to Recommendations 1, 4, 5, 6, 7, and 9 as fully responsive. These six recommendations are considered closed.

The OIG considers the proposed actions to Recommendations 2, 3, and 8 as responsive. However, these three recommendations will remain open until the OIG is notified in writing that the Board of Directors has approved and adopted the new policies and procedures for credit cards and the revisions to the policies and procedures for cost allocation and procurement.

Please send us your response to close out the three open recommendations, along with supporting documentation within six months of the date of this final report. We thank you and your staff for your cooperation and look forward to receiving your submission by January 8, 2021.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Ron Flagg, President

Lynn Jennings
Vice President for Grants Management

New Mexico Legal Aid Board of Directors

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LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

FINAL REPORT ON SELECTED INTERNAL CONTROLS

NEW MEXICO LEGAL AID

RNO 732010

Report No. AU 20-04

July 2020

www.oig.lsc.gov

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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 New Mexico Legal Aid, Inc. related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Albuquerque, NM and 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 LSC 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

New Mexico Legal Aid (NMLA or "grantee") is a non-profit organization providing legal assistance in non-criminal proceedings. NMLA's mission is to be the voice, defender, and advocate for low-income individuals and families residing in New Mexico. NMLA has 11 office locations serving 33 counties in New Mexico.

According to the audited financial statement report for fiscal year ending 2018, NMLA received a total of $7,097,007 in grants and contracts. LSC provided 50 percent or $3,551,369 of NMLA's grant funding; 26 percent or $1,823,122 was received from Civil Legal Services (CLS), and 24 percent or $1,722,516 was received from other grants, foundations, contracts and contributions.

OBJECTIVE

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

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, credit cards, contracting, cost allocation, derivative income, general ledger and financial controls, management reporting and budgeting, fixed assets, employee benefits, and payroll within the audit period of January 1, 2018 to September 30, 2019.

Internal controls were adequately designed and properly implemented in derivative income, employee benefits, fixed assets, and management reporting and budgeting, as they relate to specific grantee operations and oversight. However, the OIG noted that NMLA needs to implement minor improvements to strengthen its practices and formalize, in writing, internal controls over credit cards, cost allocation, general ledger and financial controls, contracting, disbursements, and payroll, as detailed below.

CREDIT CARDS[1]

The OIG reviewed NMLA's credit card policies and procedures to determine whether NMLA has internal controls in place over the use of credit cards. Specifically, to determine if the credit card transactions were adequately supported, properly approved, and in accordance with LSC regulations and guidelines, the OIG judgmentally selected and reviewed 25 transactions from ten credit card statements, totaling $12,394. Of this amount, $4,145 was charged to LSC. NMLA has three credit cards as shown in the Table 1 – Summary of Credit Cards.

[1] While NMLA had both credit cards and store cards, the OIG found no substantive difference in how these cards were used. For the purposes of this report use of the term credit cards is inclusive of both credit cards and store cards.

TABLE 1 - SUMMARY OF CREDIT CARDS

Credit Card	Limit	Total Number of Authorized Users
Walmart (Store Card)	$8,000	12[2]
Costco Anywhere Visa Business Card by Citi	$25,000	3
US Bank Visa Rewards Community Card	$20,000	3

During interviews the OIG determined that the Walmart store cards are used for purchases of office supplies, while the Costco and US Bank credit cards are primarily used for travel related purchases.

The OIG's testwork revealed that all transactions were adequately supported, reasonable, and allowable per LSC regulations. However, there was no credit card user acknowledgement agreement and no written policies and procedures for credit cards, including requirements for transactions that may warrant a prior approval.

No User Acknowledgement Agreement for Credit Cards

NMLA did not have an acknowledgement agreement with employees who are authorized to use credit cards. A Credit Card User Acknowledgement Agreement is a form established for an authorized user to accept and abide by the grantee's policies and procedures governing the use of credit cards. The Chief Financial Officer (CFO) explained that there were no instances that warrant a formal agreement; however, she thought that it would be a good idea to develop an agreement.

The LSC Accounting Guide, Appendix VII, Accounting Procedures and Internal Control Checklist, advises grantees to develop a form containing relevant credit card policies for employees who are issued and authorized to use credit cards to review and sign. The lack of a signed acknowledgement agreement may result in confusion over initiation, approval, and use of credit cards. Also, a signed acknowledgement agreement demonstrates that authorized card holders have read the credit card policies and procedures, and are also responsible for knowing and adhering to the policies.

No Written Policies and Procedures Over Credit Cards

NMLA does not have written policies and procedures over credit cards. Specifically, policies and procedures for the following:

- issuance;

[2] The Walmart Store Cards are issued to 11 office locations and one accounting staff at the administrative office.

- activation;
- deactivation;
- approval process, including transactions that may warrant a prior approval;
- requirements for supporting documentation;
- cardholder reconciliation process;
- payment procedures;
- permissible charges;
- handling of impermissible charges; and
- handling of LSC unallowable costs.

The CFO explained there was no policy in place when she joined NMLA, and nothing caught her attention and made her feel that written policies were needed. She agreed that it would be a good idea to develop policies and stated that she would begin working on them.

The LSC Accounting Guide, Section 3-4 states that recipients must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*. The absence of policies and procedures over credit cards may result in purchases made without the knowledge of appropriate management or at unacceptable prices or terms.

The OIG recommends that the Executive Director:

Recommendation 1: develop an acknowledgement agreement form for authorized credit card holders and users to read, acknowledge, and sign. The agreement may include, but not be limited to, repayment terms and conditions for personal use or misuse of the card; the agreement should be retained on file.

Recommendation 2: develop written policies and procedures for credit cards, including the following:

- issuance, activation, and deactivation;
- approval process; including transactions that may warrant a prior approval;
- requirements for supporting documentation;
- cardholder reconciliation process;
- payment procedures;
- permissible charges;
- handling of impermissible charges; and
- handling of LSC unallowable costs.

COST ALLOCATION

The OIG reviewed NMLA's cost allocation processes to determine whether internal controls exist over cost allocation and whether the allocation methodology is reasonable and in compliance with LSC regulations and guidelines.

As a result, the OIG found that NMLA's cost allocation methodology is reasonable and adheres to LSC regulations and guidelines. NMLA performs allocations when invoices are received for non-personnel indirect costs and on a monthly basis for personnel indirect costs. The allocations are split at 50 percent between two funding sources, LSC and Civil Legal Services. NMLA allocates LSC unallowable costs to unrestricted funds. The accounting and legal systems provide an audit trail for allocating costs. However, the allocation procedures, including the formula and methodology, are not sufficiently detailed in writing.

<u>Inadequate Written Procedures Over Cost Allocation</u>

NMLA's written policies and procedures over cost allocation do not include the following:

- The frequency of allocations for indirect personnel and non-personnel costs.
- The detailed procedures and formula for allocating indirect personnel and non-personnel costs.

The OIG also found that the Senior Accountant is the only staff member who can perform allocations of indirect costs. The grantee relies solely on the Senior Accountant for this task. The CFO explained that the current cost allocation policy is a work in progress.

The LSC <u>Accounting Guide</u>, Section 3-5.9, states that the allocation formula should be adequately documented in writing with sufficient detail for the auditor, LSC, OIG, GAO [Government Accountability Office] and others, to easily understand, follow and test. In the event of an unexpected absence of the Senior Accountant, there is no designated policy or procedure for other accounting staff to follow. Also, a lack of detailed procedures for allocating costs increases the risk of unallowable costs being charged to LSC.

The OIG recommends that the Executive Director:

<u>Recommendation 3</u>: develop detailed written procedures over cost allocation including, but not limited to, the two bulleted items mentioned above which would allow for cross-training of other staff to perform allocations in the absence of the Senior Accountant.

GENERAL LEDGER AND FINANCIAL CONTROLS

The OIG reviewed NMLA's procedures over general ledger and financial controls to determine whether NMLA provides adequate internal controls and adheres to LSC regulations and guidelines. The OIG found that they are mostly in compliance with LSC's *Fundamental Criteria.* However, NMLA does not have adequate segregation of duties in place within the accounting system.

Inadequate Segregation of Duties within the Accounting System

The OIG found that NMLA has segregation of duties outside of the accounting system. However, all three accounting staff members have the same user access within the MIP Fund Accounting Software system. Additionally, all users can make changes in all modules within the accounting system.

The CFO and the Senior Accountant explained that they do not segregate accounting system duties so that each of them can work in any area in the event of an absence or vacation.

The LSC Accounting Guide 3-4 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. The segregation of duties within the accounting software is a basic building block of internal controls for an organization. Without segregation of duties within the accounting software any accounting staff member can initiate and record a transaction without a second independent individual being involved in the process.

The OIG recommends that the Executive Director:

Recommendation 4: update user access rights to the accounting software according to each of the accounting staff's responsibilities.

CONTRACTING

The OIG reviewed NMLA's contracting procedures to determine whether the grantee has adequate internal controls over the contracting process. Specifically, whether policies and procedures comply with LSC regulations and whether the grantee follows its own written policies. The OIG judgmentally selected and reviewed nine active contracts within the audit period, totaling $311,984. The contracts reviewed were either competitively bid or sole sourced. Sole sourced contracts are contracts established without a competitive process and require justification that only one known source exists or that only a single vendor can fulfill the requirements.

NMLA's written policies and procedures over contracting are comparable to LSC's *Fundamental Criteria*. However, the OIG found inadequate documentation in four out of nine contracts reviewed.

Inadequate Documentation Over Contracts

NMLA could not locate one contract for janitorial services and did not have documentation of justification for three sole sourced or non-competitive contracts.

TABLE 2 - SUMMARY OF CONTRACTS

Type of Contract	Missing Document	Total Amount Paid from 1/1/2018 to 9/30/2019	Total Amount Charged to LSC from 1/1/2018 to 9/30/2019
Competitively Bid Janitorial Service	Contract	$14,932	$6,673
Sole Sourced Consulting Service A	Justification	$7,677	$720
Sole Sourced Consulting Service B	Justification	$1,395	$1,395
Sole Sourced Accounting Service	Justification	$34,349	$34,349

The CFO explained that the janitorial contract may have been misplaced during transitions in personnel and acknowledged that a new copy should have been obtained. For the sole sourced contracts, the CFO explained that in hindsight, the vendor selection form and accompanying justifications should have been used but were not thought of at the time.

The LSC Accounting Guide, Section 3-5.16, states that the process for each contract action should be fully documented and maintained in a central file. Documents to support competition should be retained and kept with contract files. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file. In addition, the NMLA Procurement Policy states that procurement by non-competitive negotiations requires the strictest attention to the observation of impartiality toward all suppliers. The Executive Director and the CFO must approve all procurements by non-competitive negotiation when only one supplier is involved or only one response to a Request for Proposal (RFP) is received. Buyer of services or items must fill out a Vendor Selection Form and write a narrative justification for non-competitive procurement. Following written procedures and proper documentation helps ensure that approved contracts have followed all established procedures.

The OIG recommends that the Executive Director:

Recommendation 5: obtain or find the missing contract for janitorial services, retain it in a central file and ensure that written contracts are maintained for all applicable business arrangements.

Recommendation 6: document the justification for the three sole sourced or non-competitively bid contracts, retain them in a central file, and ensure going forward that all sole source decisions are documented and maintained in a central file, as outlined in the grantee's policies.

DISBURSEMENTS

The OIG reviewed NMLA's disbursement procedures to determine whether the grantee has adequate internal controls over disbursements and whether NMLA's practices, policies, and procedures comply with LSC regulations and guidelines. We initially used a simple random methodology to select 95 disbursement transactions from the check register totaling $92,778. Then, we applied a judgmental sampling methodology to select a final sample of 87 disbursement transactions, totaling $135,598 for testwork. The sample represents approximately six percent of the $2,237,825 disbursed for expenses other than credit cards and payroll. The OIG found that the grantee's practices mostly complied with LSC's *Fundamental Criteria.* However, we found that NMLA's current practices were not entirely formalized in writing.

LSC Unallowable Transaction

All disbursement transactions tested were adequately supported and approved. However, the OIG found one unallowable membership fee totaling $150, charged to LSC. The membership fee is considered unallowable because it was paid to a non-profit advocacy organization. The CFO explained that the membership fee was mistakenly charged to LSC. The OIG regarded the amount of unallowable costs immaterial, and the mistake as a management oversight because the other membership fees were appropriately charged to funding sources other than LSC.

LSC regulation, 45 CFR §1630.7(a), states that LSC funds may not be used to pay membership fees or dues to any private or non-profit organization, whether on behalf of the recipient or an individual. In addition, the NMLA Accounting Manual states that LSC funds may not be used for expenditures of dues and memberships that are not required for the practice of law. Unallowable disbursement transactions charged to LSC may be subject to questioned costs.

Inadequate Written Policies

The grantee's Accounting Manual does not include policies and procedures for purchases of $2,000 and under, along with requirements for prior approvals and documentation within this threshold. During interviews, the OIG found that in practice, NMLA does not require documentation of prior approval for purchases under $200 and requires that managers receive either verbal or email approval from the CFO for purchases between $200 and $2,000. The CFO explained that they developed the practices for approvals, but did not document them in the accounting manual due to an oversight.

In addition, the OIG also found that NMLA's Board of Directors approved travel reimbursements, totaling $2,312, for two out-of-state interview candidates for the Executive Director position. However, the Accounting Manual did not include an interview expense reimbursement policy. The Executive Director explained that the travel reimbursements did not require a specific policy since they were approved by the Board of Directors.

The LSC Accounting Guide, Section 3-4.5(a), states that approval should be required at an appropriate level of management before a commitment of resources is made. Also, Section 3-4 states that recipients 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 for prior approvals and travel reimbursements for interview candidates help clearly define a sequence of steps to be followed in a consistent manner and how grantee management should respond in case of any policy violation.

The OIG recommends that the Executive Director:

<u>Recommendation 7</u>: ensure that LSC unallowable costs are charged to funding sources other than LSC.

<u>Recommendation 8</u>: update the Accounting Manual to include policies for:

a. prior approvals of purchases between $200 and $2,000, including documentation requirements; and
b. travel reimbursements for interview candidates, including but not limited to the Executive Director position.

PAYROLL

The OIG reviewed NMLA's payroll procedures to determine whether adequate internal controls are in place and whether the grantee's payroll process adheres to LSC regulations and guidelines. A judgmental sampling methodology was used to select seven employee payroll records from four different pay periods. The payroll records are comprised of the payroll register, timesheets or attendance records, leave, over-time, and compensatory time records.

In general, NMLA has adequate internal controls over payroll processes. All seven employees' salaries were in accordance with the documented pay rates, the deductions agreed with the payroll register and check stubs, and all timesheets reviewed were signed and verified by a supervisor. However, the OIG found weak document management over personnel files.

<u>Weak Document Management Over Personnel Files</u>

The OIG found three of seven personnel files reviewed had incomplete records as follows:

<u>TABLE 3 – MISSING RECORDS IN PERSONNEL FILES</u>

Personnel File No.	Missing Record
Non-Union Personnel File 1	Resignation letter
Union Personnel File 2	Performance evaluation and salary record
Union Personnel File 3	Salary record

For the non-union personnel, the Executive Director explained that the resignation letter might have been filed elsewhere. For the union member personnel, the Executive Director explained that the records were filed separately to have better control and restrict access to sensitive personnel information.

NMLA's Collective Bargaining Agreement states that each personnel file shall include performance evaluations, salary and benefits information, and other items mentioned in Article 11.1. In addition, the LSC Accounting Guide Section 3.5.5 states that each employee shall have a personnel file which includes, among other things, documentation concerning appointments, position reclassifications, salary information, evaluations, promotions, and terminations. Strong document management of personnel files decreases the risk for incomplete or missing documents, as well as risks associated with the sharing of personnel information and non-compliance with record keeping requirements in the cases of audits or litigation.

The OIG recommends that the Executive Director:

Recommendation 9: ensure that personnel files include all the items per the Collective Bargaining Agreement, Article 11.1, including the termination record, performance evaluation and salary records of the three personnel files mentioned above.

OIG SUMMARY OF GRANTEE MANAGEMENT COMMENTS

NMLA provided their responses to the OIG's Draft Report via email on June 8, 2020. NMLA management expressed their appreciation and stated that the audit went smoothly and professionally. NMLA's responses are included in their entirety in Appendix III.

NMLA management agreed with six recommendations and stated that they:

- developed a credit card holder agreement form.
- developed a written credit card policy and procedures which will be presented to the Board of Directors for approval.
- found the missing contract, identified in the report as Competitively Bid Janitorial Service contract and retained it on file.
- now perform periodic audits of dues and membership fees to ensure these unallowable costs are not charged to LSC.
- updated the procurement policy for purchases between $200 and $2,000. They also stated that they revised the Accounting Manual to (1) include that Board members will set up a budget in consultation with the CFO for any expenses related to recruitment of Executive Directors and (2) state that the travel policy will be followed for interview candidates.
- revised their employee exit checklist to include resignation letters to ensure the letters are in the personnel files. They also stated that they are in the process of developing a system where a single file for each employee contains appointment, position reclassification, salary information, evaluation, promotion, and termination letters.

NMLA management partially agreed[3] with three recommendations and stated that they:

- did not agree with the statement that the Senior Accountant is the only staff performing allocation of indirect costs. However, NMLA revised written policies and procedures for Cost Allocation to include frequency of allocation and formula for allocation with examples of allocation methodology.
- did not agree that the CFO and the Senior Accountant do not segregate accounting system duties so that each of them works in any area in the event of an absence or vacation. However, NMLA added procedures where the CFO signs-off on the reports of posted transactions by the Senior Accountant. In addition, the user access is now limited for the Accounts Payable Specialist to make only entries and the CFO to only post in the system. All other privileges that were not used are formally revoked.
- did not agree that a Vendor Selection Form is required for the contract identified in the report as Sole Sourced Consulting B, because the total amount of the contract

[3] The OIG considered NMLA's response of partially agreed and partially disagreed as one and the same. Therefore, the OIG noted NMLA's response as partially agreed for Recommendations 3, 4 and 6.

is less than $2,000. However, NMLA provided documentation of justifications for two of three sole sourced contracts and they are now maintained on-file.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers NMLA's comments, actions, and supporting documentation provided as of June 8, 2020, for Recommendations 1, 4, 5, 6, 7, and 9 as fully responsive. The grantee responded to recommendations 4 and 6 by stating that they partially agreed with the recommendations however their corrective action fully addresses the recommendation. The OIG considers these six recommendations to be closed. The grantee's comments and actions were as follows:

- Recommendation 1: NMLA developed a credit card holder agreement form.
- Recommendation 4: NMLA established practices where the CFO signs-off on the reports of posted transactions by the Senior Accountant. In addition, user access is now limited for the Accounts Payable Specialist to make only entries and the CFO to only post in the system. All other privileges that were not used are formally revoked.
- Recommendation 5: NMLA found the missing contract identified as Competitively Bid Janitorial Service contract in the report and retained it on file.
- Recommendation 6: NMLA retroactively documented explanations for two sole sourced contracts and stated that sole source justifications have been strictly enforced since October 2019. Although NMLA did not document a justification for the Sole Sourced Consulting B contract, the OIG considers the completed actions responsive as the contract term for the aforementioned contract has ended and payments were ultimately under $2,000.
- Recommendation 7: NMLA is now performing periodic audits of dues and membership fees to ensure these unallowable costs are not charged to LSC.
- Recommendation 9: NMLA revised their employee exit checklist to include resignation letters within the personnel files. NMLA is also in the process of developing a system so that a single file for each employee contains appointment, position reclassification, salary information, evaluation, promotion, and termination letters.

The OIG considers the proposed actions for Recommendation 2, 3 and 8 as responsive. Although the grantee responded to recommendation 3 by stating that they partially agreed with the recommendation, their corrective action addresses the recommendation.

Recommendations 2, 3 and 8 will remain open until the OIG is provided with supporting documentation reflecting the Board of Directors' approval of the revised credit card, cost allocation, and procurement policies and procedures.

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
- Credit Cards
- Contracting
- Cost Allocation
- Derivative Income
- General Ledger and Financial Controls
- Management Reporting and Budgeting
- Fixed Assets
- Employee Benefits
- Payroll

The OIG evaluated select financial and administrative areas and tested the related controls to ensure that costs are adequately supported and allowed under the LSC Act and LSC regulations during the period of January 1, 2018 through September 30, 2019.

To obtain an understanding of the internal control framework and NMLA's processes over areas listed above, we (1) reviewed 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 our conclusions over the design, implementation, and operating effectiveness of controls significant to the audit objectives. Furthermore, we 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 LSC Accounting Guide.

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

We 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, an inadequate audit process, or intentional omissions or misleading information because of misrepresentation or fraud. Based on our consideration of these factors, we determined the audit risk level to be low.

A non-statistical sampling methodology was used to select samples for testing. We determined that a non-statistical methodology would be appropriate based on the audit objective, scope, nature of the grantee and audit timeline. Our results cannot be projected to the universe and are not intended to make inferences about the populations from which our samples were derived.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, we reviewed disbursements from a sample of vendor files. We initially used a simple random methodology to select 95 disbursement transactions from the check register totaling $92,778. Then, we applied a judgmental sampling methodology to select a final sample of 87 disbursement transactions, totaling $135,598 for testwork. The sample represented approximately six percent of the $2,237,825 disbursed for expenses other than payroll and credit cards during the period January 1, 2018 through September 30, 2019. To assess the appropriateness of expenditures, we reviewed invoices and vendor lists, then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated based on the grant agreements, applicable laws and regulations and LSC policy guidance.

In addition to the disbursements, we selected 25 transactions, totaling $12,394, from 10 credit card statements. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

To evaluate and test internal controls over the employee benefits, payroll, contracting, management reporting and budgeting, general ledger and financial controls, as well as derivative income, we 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 evaluate the adequacy of the cost allocation process and to determine whether the allocation methodology is reasonable and in compliance with LSC regulations and guidelines, we 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 purchase, record, inventory, and disposal of property and equipment were reviewed by examining current grantee practices in comparison with LSC regulations and policies outlined in the LSC Accounting Guide.

The on-site fieldwork was conducted from October 21, 2019 through October 30, 2019. Our work was conducted at the grantee's administrative office in Albuquerque, NM and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2019 through September 30, 2019.

The audit was conducted in accordance to 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 objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. We 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 objectives 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 is necessary to evaluate information systems controls. The OIG determined that information system controls are 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 control at the grantee. We determined that no further audit procedures relating to information systems controls were needed.

APPENDIX II – ASSESSMENT OF INTERNAL CONTROL COMPONENTS AND PRINCIPLES[4]

Component of Internal Control		Principle		Significant/ Material to Audit Objectives?
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.	2	The Oversight Body Should Oversee the Entity's Internal Control System	Yes
		3	Management Should Establish an Organizational Structure, Assign Responsibility, and Delegate Authority to Achieve the Entity's Objectives	Yes
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	Yes
		11	Management Should Design the Entity's Information System and Related Control Activities to Achieve	Yes

[4] The numbers correspond with the principles outlined in the *Standards for Internal Control in the Federal Government.* The Principles No. 1, 4, 5, 6, 7, 8, 9, 16 and 17 not included in Appendix II were considered during the audit. However, these Principles were determined to not be significant to the audit objectives.

Component of Internal Control		Principle		Significant/ Material to Audit Objectives?
Name	Overview	Number	Description	
			Objectives and Respond to Risks	
		12	Management Should Implement Control Activities Through Policies	Yes
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	Yes
		14	Management Should Internally Communicate the Necessary Quality Information to Achieve the Entity's Objectives	Yes
		15	Management Should Externally Communicate the Necessary Quality Information to Achieve the Entity's Objectives	Yes

APPENDIX III – GRANTEE MANAGEMENT COMMENTS

New Mexico Legal Aid, Inc.

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Darrel Philpott
Senior Audit Program Analyst
Office of Inspector General
Legal Services Corporation
3333 K Street
Washington, D.C. 20007

Re: Comments to Draft Audit
New Mexico Legal Aid
RNO 732010

Mr. Philpott:

We would like to extend our thanks to you and your team. We believe the audit went very smoothly and professionally. Our comments to the draft audit follow:

Recommendations	Response	Comments
Recommendation 1	Agree ☒ Partially Agree ☐ Disagree ☐ Partially Disagree ☐	A cardholder agreement form for authorized credit card holders is developed and the signed agreements are retained on file. *Refer Attachment 1.*
Recommendation 2	Agree ☒ Partially Agree ☐ Disagree ☐ Partially Disagree ☐	A written Credit Card Policies and procedures is developed and will be presented in the next board meeting for approval. *Refer Attachment 2*
Recommendation 3	Agree ☐ Partially Agree ☒	Revised written policies and procedures for Cost Allocation that include frequency of allocation and formula for

	Disagree ☐ Partially Disagree ☒	allocation with examples of allocation methodology. *Refer Attachment 3* Senior Accountant performs monthly payroll allocations which are direct costs to specific funds and Account Payable Specialist routinely performs allocations of expenses both direct and indirect costs as invoices are processed for payments. Senior Accountant functions as back-up for Account Payable Specialist for this task when necessary. Disagree with the statement that Senior Accountant is the only staff that performs allocation of indirect costs. That is not a practice in NMLA.
Recommendation 4	Agree ☐ Partially Agree ☒ Disagree ☐ Partially Disagree ☒	The accounting responsibilities are segregated for internal control purposes. Specific duties assigned to each individual ensures that no one individual controls all phases of processing a transaction. CFO does not make entries in the accounting system but only posts transactions in the system. The Accounts Payable Specialist does not post transactions in the accounting system but only makes entries. Though the duties are separated, being a three-person accounting office, the Senior Accountant has the ability to post in the system in the absence of CFO. To mitigate risk, the CFO signs-off on the reports of posted transactions by the Senior Accountant. User access are now limited for Accounts Payable Specialist to make only entries and CFO to only post in the system. All other privileges are formally revoked that were not used. Disagree with the statement that the CFO and the Senior Accountant explained that they do not segregate accounting system duties so that each of them works in any area in the event of an absence or vacation. The statement is misleading.
Recommendation 5	Agree ☒ Partially Agree ☐ Disagree ☐ Partially Disagree ☐	Missing contract for the janitorial services was found and retained in the central filing system. *Refer Attachment 4*
Recommendation 6	Agree ☐ Partially Agree ☒ Disagree ☐ Partially Disagree ☒	A written explanation supporting the reasons for the two of the three sole source procurements are documented retroactively and maintained centrally. *Refer Attachment 5.1 & 5.2* Vendor Selection Form is required by NMLA procurement policy for purchases over $2,000. So, the amount of $1,395 should not be an audit exception. *Refer Attachment 6* A stringent enforcement of the policy for any kind of non-competing procurement is instituted since the OIG audit in October 2019.
Recommendation 7	Agree ☒ Partially Agree ☐ Disagree ☐ Partially Disagree ☐	Extra steps are taken by periodically auditing the charges of dues and membership fees to ensure LSC funds are not used for such expenses other than bar dues.
Recommendation 8	Agree ☒ Partially Agree ☐ Disagree ☐ Partially Disagree ☐	Procurement policy was updated during the OIG auditors' visit to include purchases having a value exceeding $200 but not exceeding $2,000 require CFO approval. *Refer Attachment 7*

		Accounting Manual revised to include that the Board members will set up a budget in consultation with the Chief Financial Officer for any expenses related to recruitment of Executive Director and that NMLA travel policy will be followed for interview candidates. *Refer Attachment 8*, page 49
Recommendation 9	Agree ☒ Partially Agree ☐ Disagree ☐ Partially Disagree ☐	A system has been set up to include the resignation letter as part of the exit checklist to ensure resignation letters are received and filed in the personnel file. *Refer Attachment 9.* A system is in development that a single file for each employee contains appointment, position reclassification, salary information, evaluation, promotion, and termination letters.

We look forward to receipt of the final audit.

Sincerely,

Lewis G. Creekmore, Esq.
Executive Director

Cc:
Lizzy Ratnaraj, CFO