Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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March 30, 2018

Ms. Hadassa Santini
Executive Director
Puerto Rico Legal Services, Inc.
1859 Avenue Ponce de Leon, Pda 26, Apartado 9134
San Juan, PR 00908-9134

Dear Ms. Santini:

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

The OIG considers your proposed actions to address Recommendations 4, 6 and 7 as responsive and considered closed.

The actions planned by grantee management to address the issues to Recommendations 1, 2, and 3 will remain open until revisions to the Accounting Manual are provided. Recommendation 5 will remain open until documentation is received supporting timely bank reconciliations being performed. In addition, the issue over the misclassification of attorneys' fees will remain open until the current year audited financial statements have been submitted containing the necessary adjustments to properly account for the attorneys' fees as LSC funded.

Please provide us with your response to close out the open recommendations within six months of the date of this final report or September 23, 2018.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings,
Vice President for Grants Management

Puerto Rico Legal Services. Inc.
Lcdo. Jaime Ruberté Santiago, President
Sr. Jesús García Oyola, Vice President
Lcda. Laura Patricia Ortiz Nieves, Sr. Vice President

Sent by E-mail to Board of Directors
Lcdo. Luis M. Rivera Santana
Sra. Samaria Álvarez García
Lcdo. Héctor R. Romero Carrión
Sra. Jennie Rivera Piñeiro
Sr. José Javier Mercado
Sra. Onelia Pérez Rivera
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Sra. Minerva Rodríguez Franco
Lcda. Belén Guerrero Calderón

LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

FINAL REPORT ON SELECTED INTERNAL CONTROLS

PUERTO RICO LEGAL SERVICES, INC.

RNO 253010

Report No. AU 18-03

March 2018

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 Puerto Rico Legal Services, Inc. (PRLS or grantee), related to specific operations and oversight. Audit work was conducted at the grantee's administrative office in San Juan, Puerto Rico and at LSC headquarters in Washington, DC.

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

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

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

BACKGROUND

Puerto Rico Legal Services Inc. (PRLS) is a non-profit corporation established in 1966, dedicated to providing legal assistance in civil cases and matters to financially eligible individuals and groups. Its mission is to ensure that low-income citizens have access to the justice system to safeguard their rights in civil matters. PRLS receives continued support through annual grants from LSC.

According to the grantee's audited Financial Statements for fiscal year ending (FYE) 2015, PRLS received total funding of $19,097,565 in grants and contracts. LSC funding totaled $11,417,908 (60 percent); the remaining $7,679,657 (40 percent) was from non-LSC sources.

<u>OBJECTIVE</u>

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

<u>AUDIT FINDINGS</u>

To accomplish the audit objective, the OIG reviewed and tested internal controls related to cash disbursements, credit cards, cost allocation, contracting, fixed assets, derivative income, employee benefits, payroll, general ledger and financial controls and internal reporting and budgeting. The grantee's controls in the specific areas of cash disbursements, employee benefits, payroll and internal reporting and budgeting listed above were adequately designed and implemented; however, the areas of contracting, cost allocation, derivative income, financial controls, credit cards and fixed assets detailed below need improvement.

WRITTEN POLICIES AND PROCEDURES

The grantee's <u>Accounting Manual</u> has adequate written policies and procedures in the areas of general ledger and financial controls, internal reporting and budgeting, property and equipment, disbursements, credit cards and derivative income. There are no written policies and procedures for contracting. In addition, the written policies and procedures for cost allocation need to be strengthened to properly describe the controls and procedures followed by the grantee.

Section 3-4 of the LSC <u>Accounting Guide</u> states that each grantee must develop an accounting manual that describes specific procedures that must be followed in order to comply with the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC <u>Accounting Guide</u>.

Well-documented policies and procedures help ensure that proper controls are followed, serve as a vehicle to communicate controls to all staff, and help ensure that staff members understand their roles and responsibilities. Without documented policies and procedures, there could be a lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover.

CONTRACTING

PRLS does not have written policies and procedures specific to their contracting process. Test work revealed that PRLS has contracting practices in place that require all contracts exceeding $1,000 be subject to competitive bidding and Executive Director approval. The OIG selected five contracts for testing and found that a bidding requirement was not followed in one of five contracts reviewed. Grantee management stated that they follow policies established pursuant to the general requirements from their funding sources and other applicable law. Therefore, grantee management did not find it necessary to have separate written policies and procedures over contracting. Nevertheless, as described, the grantee's contracting practices do not fully adhere to the *Fundamental Criteria*. Contracting is a high-risk area for potential abuse and, if not properly conducted, weak contracting practices can result in a waste of scarce funds and subject the grantee to questioned cost proceedings.

Section 3-5.16 of the LSC Accounting Guide states the following:

1. Types of Contracts: Not all contracts are the same. Management should establish contracting procedures, dollar thresholds, and competition requirements for each type of contract. Contracts needing additional oversight include consulting, personal service, and sole sourced.
2. Documentation: 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 the deliverables are completed.
3. Competition: The type and dollar value of contracts that require competition should be included in grantee policies. Documents to support competition should be retained and kept with the contract files.
4. Approvals: Required approval levels (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 provide approval.

Recommendation 1: The Executive Director should establish a written contracting policy to identify procedures for the various types of contracts such as consulting, personal service, sole sourced and include dollar thresholds and competition requirements as set forth in LSC's *Fundamental Criteria*.

COST ALLOCATION

Policy Not Implemented

PRLS maintains a written cost allocation process generally in conformity with LSC's *Fundamental Criteria*. However, the grantee's practices in allocating attorney salaries are not in accordance with their written policy. In practice, all attorney salaries are charged to LSC while written policy states that attorney salaries are based on the number of hours recorded in the timekeeping system. Grantee management explained that the current practice is the simplest way to ensure that allocations are performed correctly as all PRLS cases are LSC eligible. However, failure to follow established written cost allocation procedures may result in an unfair and inconsistent allocation across the various funding sources.

Formula Not in Writing

Although the grantee has a formula and methodology comparable to LSC's *Fundamental Criteria*; it is not included in the grantee's written cost allocation policy with sufficient detail for an auditor to easily understand, test and follow. For instance, the grantee's methodology includes that the allocation percentage is based on the total funding received among grants. Also, the grantee first allocates indirect expenses to LSC then later re-allocates among other funding sources on a quarterly basis. The Comptroller explained that the allocation formula is imbedded into a spreadsheet that he maintains to ensure that total expenses in aggregate are allocated among the funding sources at the agreed percentage rate. The Comptroller explained that the formula was not included in the Accounting Manual due to an oversight. Without a detailed written methodology and formula, it may be difficult to maintain a consistent and systematic basis for allocating indirect costs. There is also a risk that LSC and other funding sources will receive only their fair and equitable share of the costs.

Section 3-5.9 of LSC Accounting Guide states that the allocation formula should be adequately documented in writing with sufficient detail for the auditor, LSC, OIG, GAO, and others to easily understand, follow and test the formula. Also, the grantee's Accounting Manual states that attorney salaries are allocated based on the number of hours worked as recorded in the grantee's timekeeping system.

The Executive Director should ensure:

Recommendation 2: that the written cost allocation policy over attorney salaries is based on the number of hours recorded in the timekeeping system is implemented in practice.
Recommendation 3: that the Accounting Manual includes the cost allocation formula and methodology with sufficient detail for the auditor, LSC, OIG, GAO and others to easily, understand, follow and test the formula.

MISCLASSIFICATION IN FINANCIAL REPORTING

The grantee misclassified the LSC Technology Initiative Grant (TIG) of $91,827 as non-LSC funds in the financial statement report for FYE 2015. A total of $148,128 was reported as other income and non-LSC funds, which included the LSC TIG grant funds. The Comptroller explained that management relied upon the IPA's decision for the classification and presentation of funds for financial statement reporting purposes. However, misclassification or misrepresentation of financial statement data misleads the reader and increases the risk of financial statement fraud.

LSC Grant Assurances state that the grantee will sufficiently document and have internal controls in place to track and identify the application of TIG funds. Grant funds are to be reported separately by line item in the annual audit with a separate line item for each TIG grant.

Recommendation 4: The Executive Director should ensure that the financial statement report for FYE 2015 is corrected to properly classify TIG grants as separate line items.

GENERAL LEDGER AND FINANCIAL CONTROLS

PRLS does not consistently perform monthly bank reconciliations in a timely manner. In our discussion with the Comptroller, it was found that bank reconciliations are performed by a contracted CPA firm to ensure segregation of duties. However, two of the bank statements selected for review were not reconciled in a timely manner. Specifically, the October 2015 bank statement was not reconciled until December 2015 and the January 2016 bank statement was not reconciled until March 2016. According to grantee management, they are experiencing laxity of service from their bank. Untimely reconciliations will increase the likelihood of irregular disbursements and recording errors may not be discovered.

Section 3-5.2 (d) of the LSC Accounting Guide states that bank statements shall be reconciled monthly to the general ledger and reconciliation procedures documented to ensure timeliness and accuracy.

Recommendation 5: The Executive Director should ensure that bank statements are reviewed, approved and reconciled monthly.

CREDIT CARDS

The Board of Director's approval and/or oversight of the Executive Director's credit card transactions are not documented in writing. The Executive Director is issued a credit card with a limit of $10,000. The Executive Director's credit card is used for travel expenses and the purchase of IT equipment and office supplies. Test work revealed that all transactions were adequately supported and there were no unallowable transactions charged to LSC. The Executive Director explained that the Board of Directors' prior authorization is currently requested informally by telephone call or email. However, inadequate documentation and approval can result in unauthorized disbursements.

The grantee's credit card policy states that the Executive Director shall obtain the Board of Director's authorization prior to use of the credit card. Also, Section 3-5.4 of the LSC Accounting Guide states that approval should be required at an appropriate level of management before a commitment of resources is made.

Recommendation 6: The Executive Director should ensure that the Board of Director's approval and/or oversight over credit card transactions is adequately documented.

FIXED ASSETS

The funding source used to purchase fixed assets is not recorded in the grantee's fixed asset subsidiary record as required by LSC's *Fundamental Criteria.* The OIG reviewed the grantee's physical inventory and recording process and found that physical inventories were performed every two years and the results reconciled to the fixed asset subsidiary record by tag number, location and description. However, the fixed asset subsidiary record does not include the funding source. The Comptroller explained that the fixed asset module was not set up to include the funding source and has started working with IT personnel to determine the most efficient method of doing so. Failure to maintain an adequate property record may result in the inability to fully account for fixed asset purchases with LSC funds, and to support depreciation amounts and property asset balances.

Section 3-5.4 of the LSC Accounting Guide states that property purchases should be recorded in a property subsidiary record and include the funding source.

Recommendation 7: The Executive Director should ensure that the funding source is recorded in the property subsidiary record.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management resolved three recommendations contained in the report, and agreed to take corrective action with respect to three recommendations in response to the draft report. In addition, during follow-up conference calls and emails the grantee agreed to take corrective action on the remaining recommendation.

Grantee management stated the following:

- For Recommendation 1, a written policy for contracting will be prepared.
- For Recommendation 2, the grantee explained that the Accounting Manual established several allocation methodologies for attorney salaries. For example, case-by-case allocation, allocation based on percentage rate, allocation based on timekeeping, allocation based on specific legal case and allocation based on the grant for which the lawyer is assigned work.
- For Recommendation 3, the formula for the cost allocation policy will be added in writing.
- For Recommendation 4, the grantee disagrees that the LSC Technology Initiative Grant (TIG) totaling $91,827 was misclassified in the financial statement report for FYE 2015. The grantee explained that $56,623 does not relate to TIG funds received or disbursed in 2015, but represented an accounting adjustment for amounts expended in prior years. In addition, $35,204 were funds received from the Puerto Rico Government related to a grant/contract ended in prior years.
- For Recommendation 5, the account with FirstBank of Puerto Rico which caused the delays in receiving banking information needed to prepare timely bank reconciliations, was closed. A new account with Banco Popular was opened; bank information and reconciliations are now performed timely.
- For Recommendation 6, a designated Board member has been assigned to complete an Authorization Sheet to document approvals and provide oversight of the Executive Director's credit card purchases.
- For Recommendation 7, a new field "Structure ID" has been added to identify the funding source under the property subsidiary record.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The proposed actions to address Recommendations 4, 6 and 7 are responsive and considered closed. The actions planned by the grantee management to address Recommendations 1, 2, and 3 will remain open until revisions to the Accounting Manual are provided. Recommendation 5 will remain open until documentation is received which supports timely bank reconciliations being performed.

Although the grantee agreed with Recommendation 1, grantee management stated the finding presented is not correct. Nevertheless, the LSC OIG maintains that PRLS does not have the current Contracting practices documented in writing and the practices should fully adhere to LSC's *Fundamental Criteria*.

For Recommendation 2, the LSC OIG maintains that the grantee's practices over allocating attorney salaries are not in accordance with the written policy. As indicated in the grantee's response, the primary allocation method for salaries is based on timekeeping and attorney salaries are recorded against the grant for which they worked. However, OIG test work revealed that the funding source is not consistently assigned into the case system's timekeeping record. During a follow-up conference call, the grantee explained that the practices over allocation of attorney salaries is included in several different components. The grantee agreed to include these components in a revised written cost allocation policy in the Accounting Manual.

For Recommendation 4, the LSC OIG accepts the grantee's actions presented in the follow-up email response and letter describing reclassifications in the accounting records. As clarified by the grantee, the $91,827 in the audited financial statements results from an accounting adjustment and reclassification.

However, in the grantee's response, attorneys' fees in the amount of $27,000 were also part of the reclassifications in the financial statement report for FYE 2015. The grantee's response to the draft audit report provided a breakdown of line items which included attorneys' fees in the amount of $27,000 classified as "other income" in the financial statement report FYE 2015. The grantee's response in the follow-up letter states that the accounting records are being changed to conform with the financial statement presentation, reclassifying the entire attorneys' fees amount as non-LSC. Additional follow up explanation from the grantee clarified that the classification of attorneys' fees should have remained as LSC funded in the original financial statement presentation. As a result, the grantee will make the necessary adjustments in the current year audited financial statements to properly account for the attorneys' fees as LSC funded.

SCOPE AND METHODOLOGY

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

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

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

We assessed the reliability of computer generated data provided by the grantee by reviewing available supporting documentation of the entries selected for review, conducting interviews and performing physical observations to determine data consistency and reasonableness. We determined the data were 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 85 disbursements totaling $1,686,589. The sample represented approximately 12 percent of the $14,650,651 disbursed for expenses other than payroll during the period July 1, 2015 to November 30, 2016. 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. Included in the disbursement sample were five credit card statements, totaling $11,963. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

To evaluate and test internal controls over the employment benefits, credit cards, contracting, internal management reporting and budgeting, general ledger and financial controls, as well as property and equipment, the OIG interviewed appropriate grantee personnel, examined related policies and procedures as applicable and selected specific transactions to review for adequacy.

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

Controls over derivative income were reviewed by examining audited financial statement reports and current grantee practices in comparison with LSC regulations and policies outlined in the LSC Accounting Guide.

The on-site fieldwork was conducted from December 5, 2016 through December 16, 2016. Our work was conducted at the grantee's main administrative office in San Juan, Puerto Rico and at LSC Headquarters in Washington, DC. The documents reviewed pertained to the period July 1, 2015 to November 30, 2016.

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 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.

SERVICIOS LEGALES DE PUERTO RICO, INC.
Lcda. Hadassa Santini Colberg
Directora Ejecutiva

November 2, 2017

PRIORITY MAIL

Mr. John M. Seeba
Assistant Inspector General for Audit
Legal Services Corporation
3333 K Street, N.W.
Washington, D.C. 20007

Re: Puerto Rico Legal Services response to the draft report of the audit on selected internal controls

Dear Mr. Seeba:

Enclosed you will find Puerto Rico Legal Services (PRLS) response to the Office Inspector General draft report of the audit on selected internal controls. As you know, after being hit by hurricane Irma, the island suffered the impact of hurricane María. PRLS is still recovering from both hurricanes, so we were not able to send you our respond before.

Thank you so much for understanding.

Sincerely,

Hadassa Santini

Hadassa Santini Colberg,
Executive Director
Puerto Rico Legal Services

Enclosure

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•sortega@servicioslegales.org

PUERTO RICO LEGAL SERVICES, INC.

MANAGEMENT RESPONSE TO THE DRAFT REPORT ON THE RESULTS OF THE AUDIT ON SELECTED INTERNAL CONTROLS TO PUERTO RICO LEGAL SERVICES BY THE OFFICE OF INSPECTOR GENERAL OF THE LEGAL SERVICES CORPORATION

Present To :
Mr. John M. Seeba
Assistant Inspector General for Audit

November 1, 2017

Prepared By:
Hadassa Santini Colberg, Esq.
Executive Director, PR Legal Services

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Management Response to the Draft Report on the results of the audit on Selected Internal Controls to Puerto Rico Legal Services by the Office of Inspector General of the Legal Services Corporation

Recommendation 1: ***The Executive Director should establish a written contracting policy to identify procedures for the various types of contracts such as consulting, personal service, sole sourced and include dollar thresholds and compensation requirements as set forth in LSC's Fundamental Criteria.***

We understand that the following argument presented is not correct: "the grantee's contracting practices do not appear to fully adhere to the Fundamental Criteria." PRLS have never received any finding related to the contracting process. Contracts are prepared for each class of service providers: PAI Lawyers, Personnel, Experts, Auditors and Landlords. Each contract establishes conditions and restrictions to comply with. In the case of PAI Lawyers they must be admitted to the profession to be contracted. If the lawyer was a former PRLS employee, he /she must have been out of PRLS as an employee at least two years prior to be contracted. A dollar threshold is required in each type of contract. The external auditors must comply with criteria to perform the audit and to be contracted. The contract related to the audit is approved by the board of directors. Other major contracted services in PRLS are those contracts prepared for Experts and Lawyers. PRLS maintain a written policy named «*Reglamento Para La Contratación de Peritos*» (Regulations for Contracts of Experts) as a guide to contract these services. In the case of PAI lawyers, we prepare the specific contract for services to be provided for each participant. These documents establish rules, regulations and threshold approvals for each person contracted. The disbursement policy also establishes that no payment related to services contracted will be issued unless a contract is signed and an invoice is submitted detailing the work done and completed. In PRLS, we maintain contracting practices to ensure compliance with internal controls. Notwithstanding the above, we accept the recommendation and will prepare a written contracting policy.

Recommendation 2: ***The Executive Director should ensure that the written cost allocation policy over attorney salaries be based on the number of hours recorded in the timekeeping system is implemented in practice.***

We understand this recommendation is based in findings that are not correct. In page 164 Sec 16.7 of the PRLS Accounting and Fiscal Manual & Procedures (*Manual de Procedimientos Fiscales y de Contabilidad*) establishes several methodologies available to allocate attorney salaries. These are the following: case by case allocation method, allocation based on a percentage rate, allocation based in timekeeping, allocation based in a specific legal case and allocation based on the grant for which the lawyer is assigned to work. Each lawyer's salaries are recorded in the accounting records based on one of these alternatives. The primary allocation method used for salaries is based on timekeeping, but we also charge salaries to specific grants, like in the case of migrant's lawyers or PAI lawyers. In each payroll distribution the lawyer's salaries are recorded against the grant for which they worked.

Recommendation 3: ***The Executive Director should ensure that the Accounting Manual includes the cost allocation formula and methodology with sufficient detail for the auditor, LSC, OIG, GAO and others to easily, understand, follow and test the formula.***

PRLS's management accepts recommendation 3. Although the description in the accounting manual explains in detail the accounting treatment to each case, we will add to the manual the formulas for each alternative, including examples of the computation so any auditor may easily understand, follow and test the formula, as required.

Recommendation 4: ***The Executive Director should ensure that the financial statements report for FYE 2015 is corrected to properly classify TIG grants as separate line item.***

We understand this recommendation is based in a finding that is not correct.

During FYE 2016 Puerto Rico Legal Services, Inc. (grantee) received Technology Initiative Grant (TIG) funds in the amount of $25,558 which were reported on the *Statement of Support, Revenues and Expenses, and Changes in Net Assets for Legal Services Corporation (LSC) Grants* (page 21 to the financial statements).

The amount of $56,623 recognized as "other income" in FYE 2015 does not relate to TIG funds received or disbursed in 2015. It is a book entry to eliminate an "unearned revenue" account balance which remained on the books after the related TIG awards (03101, 03102 and 08073) were completely expended and closed during FYE 2004 through 2010 (see exhibit #1, page #4).

Also, the amount of $35,204 recognized as "other income" in FYE 2015 represent funds received from the Puerto Rico Government related to a grant/contract ended in prior years. This amount is not related to TIG awards or to other LSC funds.

IPA's explanatory letter and detail of other income are attached (see exhibit #2, page #5).

Recommendation 5: ***The Executive Director should ensure that bank statements are reviewed, approved and reconciled monthly.***

The delay in the preparation of the two bank reconciliations mentioned in the report principally occurred because the delay of the Bank (Firstbank of Puerto Rico) to send us the CD which includes all bank transactions. These delays were, on some occasions, later than 30 days. Puerto Rico Legal Services does not control the time shipping of this CD, so we depend on receiving the bank information to be able to make the bank reconciliation timely as required.

Due to the inconveniences presented, on April 5, 2017 we closed the bank account in Firstbank of Puerto Rico. Currently LSC funds are deposited in another Bank (Popular Bank of Puerto Rico). So far, Banco Popular is sending the information timely, so now we are able to reconcile bank statements monthly (during the month following the close of the bank statements), as required.

: ***Credit Cards: The Executive Director should ensure that the Board of Director's approval and/or oversight over credit card transactions is adequately documented.***

Puerto Rico Legal Services management accepts recommendation 6. To comply with this requirement an Authorization Sheet (AS) will be prepared and sent to the designated authorized person of the Board requesting prior permission to charge to the credit card any disbursement. The AS will provide the concept of the expense, the estimated cost amount and the estimated date of the charge. This AS duly signed and dated, will be attached to the Credit Card Statement to be part of the payment voucher. The Procedures Manual for the use of the Credit Card and the Accounting Manual will be amended to include the above mentioned procedures as described (see exhibit #3, page #6).

: ***The Executive Director should ensure that the funding source is recorded in the property subsidiary record.***

PRLS management accepts recommendation 7. Although the funding source was not registered in the asset record in the subsidiary ledger during past years, we can track the funding source of each asset purchased through the purchase order and the accounting records in the general ledger. We record any disbursement for the acquisition of fixed assets to the corresponding funding source. Notwithstanding the above, during this fiscal year we commenced to prospectively record the funding source for each fixed asset by tracking it in our fixed asset subsidiary of the financial system (Microsoft Dynamics GP). The *Structure ID field* has been used for this purpose. Attached is the print out of the screen *Asset General Information* where the funding source 01 corresponds to the first segment in the chart of accounts which indicates the funding source, in this case LSC, (see exhibit #4, page #7).

Exhibit #1

PUERTO RICO LEGAL SERVICES INC.
DETAIL OF OTHER INCOME
12/31/2015

Recognition of deferred revenue from closed TIGs (see attached explanatory letter)	$ 56,623	
Attorneys fees recovery	27,000	
Grant/contract support	35,204	*
Advertisement income (Revista Cucubano)	16,450	
Training administration fees	6,302	
Refunds & other	6,549	
Total Other Income	**$ 148,128**	

* Additional income received from Acceso a la Justicia contract from previous years.

[redacted] & P.S.C.

Certified Public Accountants

May 15, 2014

Mr. Charles S. Hey-Maestre, Esq.
Executive Director
Puerto Rico Legal Services, Inc.
P.O. Box 9134
San Juan, Puerto Rico 00908-9134

Dear Mr. Hey:

We make reference to the findings contained in our audit reports for the years 2012 and 2013 related to the Technology Information Grants (TIG) awarded by Legal Services Corporation (LSC).

In our audit of the 2012 financial statements we identified certain unexpended balances totaling $56,623.29 shown on the program's General Ledger as unearned revenues and related to TIG numbers 03101, 03102 and 08073. As required by the *"Accounting Guide for LSC Recipients"* (2010 Edition) one-time grants are included and recorded in the recipient's financial statements as a liability (e.g., Unearned Grant Revenue) on the statement of financial position until expenses are incurred for the restricted activity. Based on the information provided by PRLS management at that time we included this matter as a finding in our audit report and recommended to obtain approval from LSC to spend the remaining balances.

An in-depth investigation and analysis performed by PRLS management in 2013 revealed that the TIG funds were completely expended in years 2004 through 2010. However, due to an accounting error some of the funds expended were recorded under the LSC main program expenditures and not in the TIG awards, thus leaving an unmatched balance of TIG unearned revenues in the program's general ledger.

The matter under consideration appears to be the result of an incorrect allocation of expenditures between LSC awards and does not correspond to "unexpended" or available funds of the TIG awards.

Cordially,

Pedro Padilla, CPA
Partner

PUERTO RICO LEGAL SERVICES

Authorization for the use of Credit Card

Name ________________ Last four digit of the Credit Card ____

Date ________________

Travel __ Supplies __ Meals __ Subscriptions __ Other

Describe the specific expenses to be paid by the Credit Card

____

____

____

____

Estimated amount of charges to the card $

Accounting expense account ________________

Condition: __Budgeted __Emergency

Requested by:

Name _____________

Position ___________

Signature ___________

Date ______________

Approved by:

Name _____________

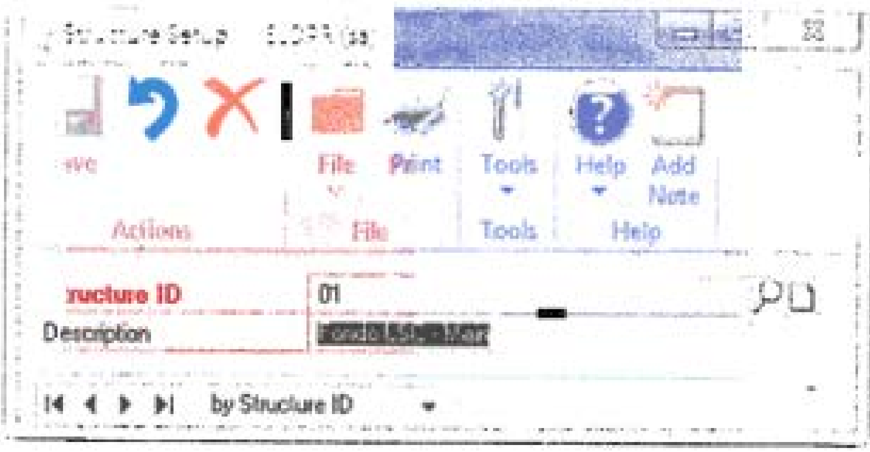
Position ___________

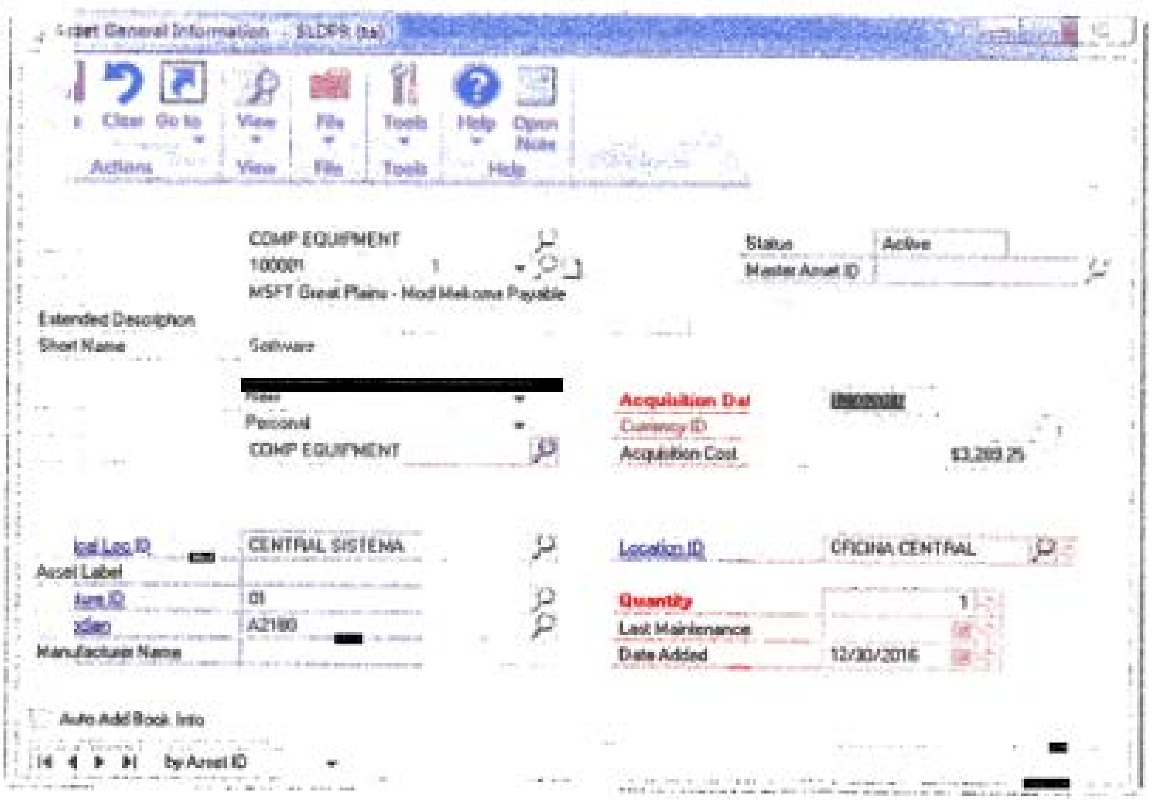
Signature ___________

Date ______________

Approval must be requested before any charge to the card. Attach copy of this duly approved authorization to the Credit Card Statement.

Structure Setup print screen





SERVICIOS LEGALES DE PUERTO RICO
DIRECTORA EJECUTIVA

February 16, 2018

Anthony M. Ramírez, J.D., CPA, CFF, CGMA
Director of Planning, Policy and Reporting
Office of Inspector General
Legal Services Corporation
3333 K Street, NW 3rd Floor
Washington, DC 20007-3522

Re: Recipient Number: 253010 - LSC OIG Audit Visit - Draft Report Finding – Recommendation 4

Dear Mr. Ramirez:

I hope you are well. In response to your questions regarding **Recommendation 4** of the OIG draft report, please find below our answers:

1. The amount of $91,827 is an Audit F/S reclassification; the codes in the general ledger are being changed to conform to the F/S presentation. Further analysis shows amounts are non-LSC. (See attachment)

2. As with the previous answer attorney's fees are non-LSC (see attachment), the code is being changed to conform to the F/S presentation.

We trust that you will find our responses to your questions to be correct and complete. Should you need additional information, do contact us.

Sincerely,

Hadassa Santini

Hadassa Santini Colberg
Executive Director

SERVICIOS LEGALES DE PUERTO RICO, INC.
1859 Ave. Ponce de León • Santurce, PR 00909-2009 • Tel: (787) 728-8686 • Fax: (787) 726-8750
PO Box 9134 • San Juan, PR 00908-9134 • www.servicioslegales.org

PUERTO RICO LEGAL SERVICES INC.
DETAIL OF OTHER INCOME
12/31/2015

Recognition of deferred revenue from closed TIGs (see attached explanatory letter)	$	56,623	(Question #1)
Attorneys fees recovery		27,000	(Question #2)
Grant/contract support		35,204	* (Question #1)
Advertisement income (Revista Cucubano)		16,450	
Training administration fees		6,302	
Refunds & other		6,549	
Total Other Income	$	148,128	

Jdsc

* Additional income received from Acceso a la Justicia contract from previous years.

Question #1: calculation
Deferred Revenue $56,623
Grant Contract + 35,204

Total $91,827

From: Hadassa Santini Colberg <hsantini@servicioslegales.org>
Sent: Wednesday, March 21, 2018 5:01 PM
To: Anthony Ramirez
Cc: Carlos Álvarez Zengotita; PEDRO PADILLA; PEDRO PADILLA; Hector Perez; Jaime Ruberté Santiago Subject: Re: PRLS Final Report

Good afternoon Mr. Ramirez:

Thank you for being available today to discuss the pending item related to your 2015 Final Report for PRLS. As discussed with our auditors , the $27,000 recovery of attorneys fees will be presented on the current year financial statements (2017) as a prior period adjustment and credited to LSC net assets at year end. This financial presentation will be in compliance with applicable auditing and financial reporting standards and will have PRLS comply with the requirements of 45 CFR 1609.04. It is important to note that these are not direct grant monies from LSC but instead recoveries of fees on legal representation supported with LSC funds. Should you need additional information , do call or communicate.

Again, thanks for your availability today.

Sincerely,

Hadassa Santini Colberg
Directora Ejecutiva
Servicios Legales de Puerto Rico
hsantini@servicioslegales.org
787-728-9561, 787-728-8686

From: Hadassa Santini Colberg <hsantini@servicioslegales.org>
Date: March 29, 2018 at 1:23:50 PM EDT
To: Anthony Ramirez <ARAMIREZ@oig.lsc.gov>
Cc: Carlos Álvarez Zengotita <calvarez@servicioslegales.org>, Sylvia Ortega Maysonet <sortega@servicioslegales.org>
Subject: Re: Final Audit Report Requirement

Good afternoon Mr. Ramirez:

After reviewing the summary of the conference call and talking with our Comptroller, Carlos Alvarez, we totally agree with its content and will review our allocation policy to document all components and practices comprising the allocation methodology which will be included in an updated Accounting Manual.

Hadassa Santini Colberg
Directora Ejecutiva
Servicios Legales de Puerto Rico
hsantini@servicioslegales.org
787-728-9561, 787-728-8686

PRLS FOLLOW-UP CONFERENCE CALL

SUBJECT: Puerto Rico Legal Services, Inc. (PRLS or grantee) Draft Audit Report issue #2 regarding the program's allocation methodology for attorney salaries.

DATE AND TIME: 12/20/2017 at 9:30 a.m.

ATTENDEES: Anthony Ramirez, Director of Planning, Exterior Policy and Reporting, LSC OIG
Meliza Ella, Sr. Auditor, LSC OIG
Hadassa Santini, Executive Director, PRLS
Carlos Alvarez, Comptroller, PRLS
Mr. Pedro Padilla, IPA

Summary of Conference Call (excerpt):

The conference call had been set up at the request of Ms. Hadassa Santini, Executive Director of PRLS. She believed a telephone call with all the interested parties present would be the quickest way to address questions that the team had regarding the responses provided by the grantee in addressing Recommendation 2 from the LSC OIG Draft Audit Report.

Essentially, the Draft Audit Report concluded that the grantee's cost allocation methodology in practice did not match the written policy contained in the grantee's Accounting Manual and recommended that the written policy be followed. PRLS did not agree. In its response, the grantee explained that the process in practice was the grantee's allocation methodology and in fact included several different components. As a result of the telephone conference call, PRLS understood that the written policy needed to document all the components and practices comprising the allocation methodology. PRLS agreed to include the revised written cost allocation policy describing all the practices and components in an updated Accounting Manual.