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May 04, 2015

Kimberly Sanchez, Esq
Interim Executive Director
Community Legal Services of Mid-Florida, Inc.
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Dear Ms. Sanchez:

Enclosed is the Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Community Legal Services of Mid-Florida, Inc. The OIG has reviewed your comments on the findings and recommendations in the draft report. Your comments are included in the final report as Appendix II.

Grantee Management accepted the recommendations outlined. The OIG considers the corrective actions outlined in the letter and the supporting documentation provided as responsive to the OIG's recommendations. Therefore, the OIG considers all recommendations closed.

We thank you and your staff for your cooperation and assistance.

Sincerely,


Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings, Vice President
For Grants Management

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL
CONTROLS**

**COMMUNITY LEGAL SERVICES OF MID-FLORIDA,
INC.**

RNO 610010

Report No. AU 15-06

May 2015

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 Community Legal Services of Mid-Florida, Inc. (CLSMF or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Daytona Beach, FL 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

CLSMF is a nonprofit corporation organized for the purpose of providing legal assistance in non-criminal proceedings or matters to persons financially unable to afford private counsel in a twelve-county area in Central Florida. CLSMF was established on January 1, 2004 as a result of consolidating three separate legal service organizations. CLSMF is principally funded through county fees, grants from the Legal Services Corporation ("LSC"), and by the Florida Bar Foundation (FBF), a nonprofit corporation established by the Florida Supreme Court to administer legal assistance statewide.

According to the audited financial statements for the grantee's year ended December 31, 2013, approximately 61 percent of the grantee's total support funding was provided by the three aforementioned funding sources: LSC, the FBF and County fees. CLSMF received \$3,206,171 from LSC; \$710,341 from the FBF and \$1,351,071 from county fees. In addition, the grantee received \$1,217,285 from other grants and contracts and \$1,897,499 from other public support.

OBJECTIVE

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

AUDIT FINDINGS

To accomplish the audit objective, the OIG reviewed and tested internal controls related to cash disbursements, credit cards, cost allocation, contracting, fixed assets, derivative income, employee benefits and internal reporting and budgeting. In addition, we assessed controls over staff arrangements between Legal Advocacy Center of Central Florida (LACCF)¹ and the grantee.

Our review determined that the grantee has in place adequate and reliable internal control processes over disbursements. The test of disbursements noted the transactions tested were generally adequately supported, allowable, and appeared to be properly allocated to LSC funds.

While many of CLSMF's controls were adequately designed and properly implemented as the controls related to specific grantee operations and oversight, some controls need strengthening while others need to be formalized in writing.

DERIVATIVE INCOME

Attorneys' Fees

In practice, CLSMF allocates attorneys' fees based on the attorney time that supported the specific case in accordance with the regulation. However, CLSMF has written policies and procedures in the CLSMF Accounting Procedure Manual for allocating attorneys' fees that do not appear to accurately detail this practice or the requirements contained in 45 CFR §1609.4 (a).

45 CFR §1609.4 (a) states:

Attorneys' fees received by a recipient for representation supported in whole or in part with funds provided by the Corporation shall be allocated to the fund in which the recipient's LSC grant is recorded in the same

¹ LACCF was organized as a non-LSC funded corporation for the purpose of providing legal assistance in non-criminal proceedings or matters to persons financially unable to afford private counsel. CLSMF provides management services to LACCF for human resources, maintenance, IT and financial services.

proportion that the amount of Corporation funds expended bears to the total amount expended by the recipient to support the representation.

The grantee's Accounting Procedure Manual states that attorney fees revenue from counties where CLSMF receives funding is allocated to county funds. In counties where CLSMF does not receive funding, revenue from attorney fees is allocated to LSC, Interest on Trust Accounts (IOTA) or other unrestricted funds depending on funding limits in the same proportion as the revenues. This policy is not in accordance with Part 1609 of LSC's regulations.

45 CFR § 1609.6 provides that grantees shall adopt written policies and procedures to guide its staff in complying with the regulation. Without detailed written procedures, there could be a lack of transparency and consistency in the application of the methodology especially in cases of staff turnover. Approved documented policies and procedures represent management's intentions on how processes are to be handled and also serve as a method to document the design of controls, communicate the controls to the staff and help the grantee ensure that proper controls are followed.

Rental Income

CLSMF receives rental income from tenants renting spaces in the Inverness and Orlando buildings. The allocation process appears to be adequate; however, the policies and procedures for recording and allocating rental income are not documented in the CLSMF Accounting Procedure Manual. CLSMF management stated they were unaware that policies and procedures relating to rental income needed to be documented.

In establishing an adequate internal control structure, each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. LSC considers derivative income to be any additional income derived from an LSC grant, such as interest income, rent or the like, or any portion of a reimbursement or recovery of direct payments to attorneys, proceeds from the sale of assets, or other compensation or income attributable to a Corporation grant.

Without detailed written procedures, there could be a lack of transparency and consistency in the application of the methodology especially in cases of staff turnover. Approved documented policies and procedures represent management's intentions on how processes are to be handled and also serve as a method to document the design of controls, communicate the controls to the staff and help the grantee ensure proper controls are followed.

Recommendations: The Executive Director should:

Recommendation 1: update and revise the written policies and procedures for attorneys' fees to mirror LSC requirements and to document the grantee's practice in place.

Recommendation 2: document policies and procedures for recording and allocating rental income to include the requirements set forth by the LSC Accounting Guide.

CONTRACTING

The grantee's current written policies involving soliciting and awarding contracts are in accordance with the *Fundamental Criteria*; however, CLSMF did not have adequate support to verify that they actually follow the documented policies. CLSMF provided a list of contracts and the LSC OIG performed detailed testing of ten vendors providing staffing services, legal representation and maintenance services. The total amount of disbursements over the audit period for the ten vendors tested was \$229,411. In our testing of the ten CLSMF vendors, we noted the following:

- For eight of the vendors with payments totaling \$188,286, the grantee did not document the process used for the contract action, whether competitively bid or sole sourced;
- For two vendors with payments totaling \$56,020, the grantee did not have a written contract on file;
- For one vendor with total payments of \$7,400 that had a specified contract timeframe, invoices were paid by the grantee for services provided outside the contract timeframe; and
- For one vendor with total payments of \$14,216, the grantee paid an amount exceeding the documented rates included in the contract.

The LSC *Fundamental Criteria* section 3-5.16 requires that the process used for each contract action be fully documented and the documentation maintained in a central file. Any deviation 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 they are completed. Documents to support competition should be retained and kept with the contract files.

CLSMF did not competitively bid for eight contracts or justify sole source contracting for various reasons including contractors were recommended or had prior experiences with specific vendors. By not subjecting these contracts to competitive bidding and documenting the justification, it's not clear whether the grantee received the best price and service available for the money spent.

For two vendors with no contracts on file, while some of the jobs were smaller jobs, we did note there were several payments greater than \$1,500, which is CLSMF's requirement for three bids, either oral or through the internet. One contractor was obtained to maintain the carpets throughout the various buildings owned by CLSMF.

The second contractor was obtained to perform various painting tasks for the buildings owned by CLSMF. Per discussion with grantee management, the two contractors with no contracts were recommended by the CLSMF maintenance staff. Since these contractors were used for various jobs, with varying costs, throughout the year, the grantee was unsure how to write the contract terms.

Contracting is a high-risk area for potential abuse. If not properly conducted, weak contracting practices can result in a waste of scarce funds. Without a formal contract, the statement of work along with other contract terms cannot be adequately communicated and monitored, which may obstruct management's ability to prevent or detect the risk of fraud, waste and abuse.

Recommendations: The Executive Director should:

Recommendation 3: ensure that the contracting practices adhere to LSC requirements including: the documentation maintained is complete with the process used for each contract action; there is adequate support for competition or sole sourcing of the contract; and the documentation is maintained in a central file.

Recommendation 4: ensure that all products and services obtained or performed within specific, agreed-upon terms be supported by a valid formal agreement.

Recommendation 5: ensure all invoices paid to contractors are supported by a valid contract within the specified timeframes and rates.

CREDIT CARDS

CLSMF's written policies and internal practices over credit cards are mostly comparable to LSC's *Fundamental Criteria*; however, we found some credit card purchases did not require approval prior to the purchases. The Visa and Mastercard accounts have adequate internal controls. However, for the Home Depot and Lowes credit cards, with credit limits of \$11,000 and \$14,500 respectively, the grantee does not require prior approval of purchases. These cards are used exclusively by the facilities manager for purchases of supplies relating to building repairs and other projects. In fact, this practice violated the grantee's own internal written policies and procedures. CLSMF management explained that it was difficult to approve every transaction for these cards as the purchases may include bolts, screws and other materials that may be required frequently.

The *Fundamental Criteria* section 3-5.4 states that approval should be required at an appropriate level of management before resources are committed. Failure to follow the purchase approval process may result in purchases made without the knowledge of appropriate management, at unacceptable prices or terms or for unauthorized uses. 45 CFR Part 1630 provides that expenditures by a grantee be reasonable and necessary for the performance of the grant or contract and be adequately documented.

If there is no approval required, a high risk for the possibility of misuse of resources exists.

The *Fundamental Criteria* further provides that internal control is defined as the process put in place, managed and maintained by the grantee's Board of Directors and management, which is designed to provide reasonable assurance of safeguarding of assets against unauthorized use or disposition. Without adequate controls, resources may be wasted on duplicative efforts or used for unauthorized purchases.

Recommendation 6: The Executive Director should apply grantee's existing credit card approval policies to its Home Depot and Lowes credit cards; and if necessary, create a dollar limit for which purchases can be made without requiring prior approval for the Home Depot and Lowes credit cards.

FIXED ASSETS

The grantee's internal controls over physical inventory and fixed assets including electronic devices appear to be adequate. CLSMF's Accounting Procedure Manual details policies and procedures that are in accordance with LSC's *Fundamental Criteria* and the Property Acquisition and Management Manual (PAMM). However, some of the specified information required by Appendix II of the Accounting Guide is not included in CLSMF's Accounting Procedure Manual. Items missing from the Accounting Procedure Manual for the fixed assets record include the useful life of the property, the check number used for the purchase and disposition data.

Fixed Assets Records

Per review of the CLSMF property records, the property records did not list all the elements required to be detailed in the property records. Specifically, the property records did not list the source of funds used to purchase the asset. CLSMF management explained that since depreciation was previously handled by the IPA, the IPA may have made adjustments to the required elements.

According to the LSC *Fundamental Criteria*, property purchases should be recorded in a property subsidiary record. The property record should include the 12 items listed in Section 3-5.4 (c) property record which is also included in the LSC Accounting Guide at Appendix II, Description of Accounting Records. Missing information on property records may result in the inability to fully account for fixed asset purchases.

Recommendations: The Executive Director should:

Recommendation 7: ensure the fixed assets policies and procedures in the Accounting Procedure Manual fully capture applicable recordkeeping requirements included in the Accounting Guide.

Recommendation 8: update the property records to list all elements required in the property record in accordance with the LSC *Fundamental Criteria*.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

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

Grantee management revised several sections of CLSMF's Accounting Procedure Manual to reflect the OIG recommendations. Supporting documentation was provided for revisions made in the following areas:

- Derivative income
- Contracting and
- Fixed assets

In addition to the Accounting Procedure Manual revisions:

- CLSMF tightened its procedures on obtaining competitive bids, justifying sole source contracting and recurring vendor contracts to include ensuring valid formal agreements are in place and ensuring invoices are paid within the specified timeframes and rates;
- CLSMF tightened its approval policies on purchases made with the Home Depot and Lowes credit cards; and
- CLSMF updated the property records.

Management's formal comments can be found in Appendix II.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers the corrective actions outlined in the letter and the supporting documentation provided as responsive to the OIG's recommendations. Therefore, the OIG considers all recommendations closed.

SCOPE AND METHODOLOGY

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

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

In addition, we reviewed controls over client trust fund accounting. Documented policies relating to client trust fund accounting were reviewed but not tested.

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

We assessed the reliability of computer generated data provided by the grantee by reviewing source documentation for the entries selected for review. We determined that 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 98 transactions totaling \$156,516. The sample represented approximately 3 percent of the \$14,116,401 disbursed for expenses other than payroll during the period January 1, 2013 to August 31, 2014. 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 on the basis of the grant agreements, applicable laws and regulations and LSC policy guidance.

To evaluate and test internal controls over the employee benefits, credit card use, contracting, property and equipment and internal management reporting and budgeting, as well as property and equipment, we interviewed appropriate program personnel, examined related policies and procedures as applicable and selected specific transactions to review for adequacy.

To evaluate the adequacy of the cost allocation process, we discussed the cost allocation process for 2014 with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We performed detailed cost allocation testing of two grants, reviewing to determine if the amounts allocated were in conformity with the documented CLSMF allocation process and if the transactions were properly allocated in the accounting system. We also tested five other grants to verify whether the direct and indirect allowable costs documented by CLSMF staff agreed with the actual grant or contract agreements.

Controls over derivative income were reviewed by examining current grantee practices in comparison with policies outlined in the LSC Accounting Guide. The attorneys' fees hours recorded by fund code on CLSMF's timesheets was compared with revenue recorded in the general ledger.

We also assessed controls over staff arrangements between Legal Advocacy Center of Central Florida (LACCF) and the grantee. The existing contract agreement between CLSMF and LACCF was reviewed and calculations performed to verify that the administrative fees paid were according to the agreement and that LSC funds were not used for LACCF expenses.

The on-site fieldwork was conducted from September 22 through October 1, 2014. Our work was conducted at the grantee's central administrative office in Daytona Beach, FL and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2013 through August 31, 2014.

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.

GRANTEE MANAGEMENT RESPONSE



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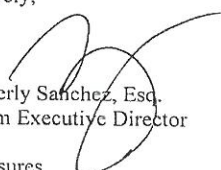
April 20, 2015

Anthony M. Ramirez
Director of Planning, Policy and Reporting
Office of Inspector General
Legal Services Corporation
333 K. Street, NW 3rd Floor
Washington, DC 20007-3558

Dear Mr. Ramirez,

Enclosed is a written response to the draft report of the Office of Inspector General's audit of Selected Internal Controls of Community Legal Services of Mid-Florida, Inc., (RNO 610010). Please see the attached responses and actions taken and implemented since receiving the recommendations. Please do not hesitate to contact me if you have any additional questions or need continued assistance.

Sincerely,


Kimberly Sanchez, Esq.
Interim Executive Director

Enclosures

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CLSMF'S responses to AUDIT FINDINGS to September 22 through October 1, 2014 LSC-OIG Review

1. DERIVATIVE INCOME

Recommendation 1: Update and revise the written policies and procedure for attorneys' fees to mirror LSC requirements and to document the grantee's practice in place Attorneys' Fees.

Attached is revised page 39 (old 38) of CLSMF's Accounting Procedure Manual reflecting the above recommendation (See Attachment No. 1)

Recommendation 2: Document policies and procedures for recording and allocating rental income to include the requirements set forth by the LSC Accounting Guide.

Attached is revised page 39 (old 38) of CLSMF's Accounting Procedure Manual reflecting the above recommendation. (See Attachment No. 1)

2. CONTRACTING

Recommendation 3: Ensure that the contracting practices adhere to LSC requirements including: the documentation maintained is complete with the process used for each contract action; there is adequate support for competition or sole sourcing of the contract; and the documentation is maintained in a central file.

CLSMF has tightened its procedures on obtaining competitive bids or justify sole source contracting and recurring vendor contracts, as well as documentation procedures. CLSMF will insure that all contract documentations are maintained in the Accounting Department in a central file.

Attached are revised pages 13 through 15 of CLSMF's Accounting Policy Manual in reference to the above recommendation. (See Attachment No. 2)

Also attached is a report of competitive pricing on flooring repairs to support sole source contracting with Carpet Technics. (See Attachment No. 3)

Recommendation 4: Ensure that all products and services obtained or performed with specific, agreed-upon terms be supported by a valid formal agreement.

CLSMF is ensuring that all products and services obtained or performed with specific, agreed-upon terms are supported by valid formal agreements.

Recommendation 5: Ensure all invoices paid to contractors are supported by a valid contract within the specified timeframes and rates.

CLSMF is ensuring that all invoices paid to contractors are supported by a valid contract within the specified timeframes and rates.

3. **CREDIT CARDS**

Recommendation 6: The Executive Director should apply grantee's existing credit card approval policies to its Home Depot and Lowes credit cards; and if necessary, create a dollar limit for which purchases can be made without requiring prior approval for the Home Depot and Lowes credit cards.

CLSMF has tightened its approval policies on purchases made with the Home Depot and Lowes credit cards. CLSMF changed the Home Depot and Lowes credit cards limits to \$4,000 and required that automatic credit card limits increase be cancelled.

Attached is revised CLSMF Form 1013 pertaining to purchases of office supplies, tools, and equipment costing over \$50 and replenishment of truck stock items costing over \$100 per month. (See Attachment No. 4)

4. **FIXED ASSETS**

Recommendation 7: Ensure that the fixed assets policies and procedures in the Accounting Procedure Manual fully capture applicable recordkeeping requirements included in the Accounting Guide.

CLSMF has revised the Accounting for Fixed Assets procedures to reflect the recommendations. Attached are updated pages 36 and 37 (old 36 only) of CLSMF's Accounting Procedure Manual reflecting changes as recommended. (See Attachment No. 5)

Recommendation 8: Update the property records to list all elements required in the property record in accordance with the LSC *Fundamental Criteria*.

CLSMF has updated the property records as suggested for years 2013 and 2014. CLSMF is in the process of researching check numbers and source of funds related to asset purchased prior to 2013 which will be posted to the property records.