

Audit of LSC Recipient: Legal Aid of Nebraska

RNO 528020

FINAL AUDIT REPORT



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May 6, 2026

Laurie Heer-Dale
Executive Director
Legal Aid of Nebraska
209 S. 19th Street, Suite 200
Omaha, NE 68102

Dear Ms. Heer-Dale,

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report concerning our audit of Legal Aid of Nebraska (LAN). Appendix IV of the report includes LAN's response to the draft in its entirety.

The OIG has determined that LAN's proposed actions adequately address 27 of 28 recommendations. The 27 recommendations will remain open until LAN submits the items specified in Figure 9, page 37 of this report.

LAN disagreed with Recommendation 6. Upon review, we found that LAN's proposed action only partially addressed this recommendation. While LAN maintained that the process they had during the audit was effective, the OIG did not find this to be the case during our review.

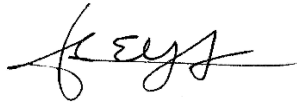
As a result, the OIG will refer Recommendation 6 to the LSC Office of Compliance and Enforcement along with questioned costs related to payroll, disbursements, credit cards, and derivative income, totaling \$642,782, for further review and action.

To resolve and close the recommendations, please send the responses along with the supporting documentation addressed to Roxanne Caruso, Assistant Inspector General for Audit, by November 6, 2026.

If you have any questions, please contact Roxanne Caruso at (202) 997-2260 or rcaruso@oig.lsc.gov. We appreciate the courtesy and cooperation extended to us during the audit.



Sincerely,



Thomas E. Yatsco
Inspector General

Enclosure

Cc: Ronald Flagg, LSC President
Lynn Jennings, LSC Vice President for Grants Management
LAN Board of Directors





Executive Summary

Legal Aid of Nebraska (LAN)

Final Audit Report on Selected Internal Controls

Objective

Our objective was to assess the adequacy of selected internal controls at LAN and determine whether costs were supported and allowed by laws, regulations, and LSC guidance. The audit period was January 1, 2023, through March 31, 2025.

Background

LAN provides free civil legal services for low-income residents, serving all 93 counties in Nebraska for over

What We Found

LAN has established core financial policies and procedures; however, our review identified several areas where internal practices did not fully align with LAN's policies and LSC guidance. These discrepancies resulted in 25 reportable findings and \$642,782 in questioned costs. Issues identified include inadequate documentation, unclear or outdated policies, inconsistent application of required approval processes, and indirect cost misallocations. In relation to indirect cost misallocations, control weaknesses resulted in questioned costs across several specific areas:

- Payroll: LAN incorrectly charged \$605,929 in Paid-Time-Off to LSC.
- Disbursements: Four transactions totaling \$17,968 lacked proper funding allocations and were used for LSC unallowable purposes.
- Credit Cards: Forty-four transactions totaling \$11,426 lacked required supporting documentation for LSC unallowable expenses.
- Derivative Income: Attorneys' fees totaling \$7,459 should have been allocated to LSC.



50 years. In 2023, LAN reported \$11.3 million in revenue. From 2023 to 2025, LAN received \$6.77 million in LSC Basic Field funding and a one-time \$497,564 LSC Disaster Grant in 2022.

What We Recommend

The report includes 28 recommendations designed to enhance accountability, improve financial transparency, and reduce compliance risks at LAN. Key recommendations include urging LAN to:

- update the written policies to reflect current practices and LSC requirements;
- reinforce internal review and approval procedures;
- ensure timely and complete financial reporting; and
- establish stronger controls over cost allocation and grant oversight.

Management's Response

LAN management agreed with 22 recommendations, partially agreed with five, and disagreed with one. LAN provided proposed actions that address 27 recommendations: Recommendations 1-5, and 7-28. However, these recommendations will remain open until the OIG is provided with evidence of strengthened policies and procedures.

LAN disagreed with Recommendation 6. We found that their proposed action only partially addressed this recommendation. Although LAN maintained that items classified under the “no grant” category pertain to unrestricted funds, they did not provide sufficient documentation to identify the funding sources in their general ledger. Therefore, the OIG was unable to verify whether LSC funds were used correctly, and we will refer Recommendation 6 to the LSC Office of Compliance and Enforcement along with questioned costs related to payroll, disbursements, credit cards, and derivative income, totaling \$642,782, for further review and action.



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Introduction

The Legal Services Corporation (LSC) Office of Inspector General (OIG) conducted an audit that assessed the adequacy of selected internal controls at the LSC grantee, Legal Aid of Nebraska (LAN), related to operations and oversight.

Section 2.5.2 of LSC's Financial Guide requires LSC grant recipients, such as LAN, under the direction of its Board of Directors, to establish adequate accounting records and internal control procedures. The Guide defines internal controls as the processes put in place, maintained, and overseen by the recipient's Board of Directors and management to provide reasonable assurance that the organization:

- safeguards assets against unauthorized use or disposition;
- produces reliable financial information and reporting; and
- complies with regulations and laws that have direct and material effect on its programs.

Our objective was to assess the adequacy of selected internal controls and determine whether costs were supported and allowed under the LSC Act of 1974, as amended, the LSC Financial Guide, and other applicable laws and regulations. We evaluated selected internal controls in the following twelve financial and operational areas: payroll, disbursements, credit cards, derivative income, property and equipment, budgeting and management reporting, general ledger and financial controls, client trust funds, cost allocation, contracting, LSC disaster grants, and employee benefits.

The audit period under review was January 1, 2023, through March 31, 2025.

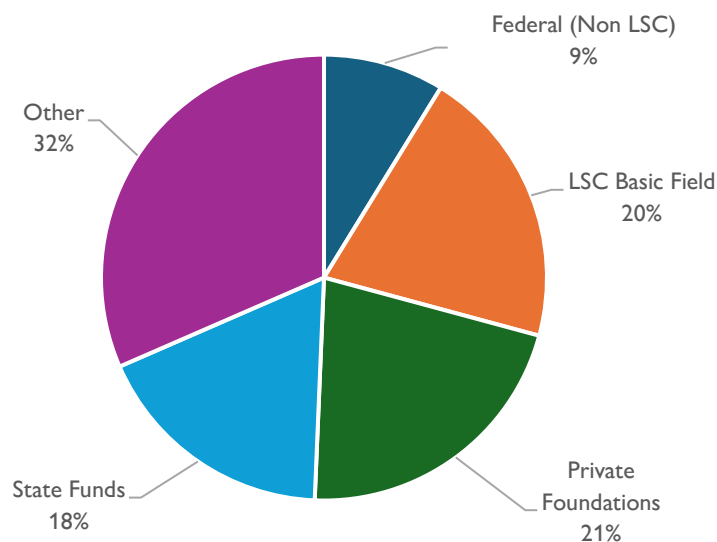


Background

LAN serves all of Nebraska’s 93 counties, providing free civil legal services to low-income individuals for over 50 years.

According to the audited financial statements for the year ending December 31, 2023, LAN reported \$11,324,869 in total revenue and support (see Figure 1). Of this amount, \$3,306,674 came from federal sources, including \$2,312,476 in LSC Basic Field Grants; \$2,431,056 came from private foundations; and \$2,015,996 came from state government funds. The remaining \$3,571,143 came from other sources.

Figure 1: LAN’s 2023 Funding Sources



From 2023 through 2025, LAN received \$7,071,168 in LSC Basic Field funding and a one-time LSC Disaster Grant of \$497,564 in 2022.

Audit Results

We determined that LAN’s internal controls for the operation and oversight of employee benefits and the LSC Disaster Grant were adequately designed and properly implemented. However, LAN needs to strengthen its practices or formalize its internal controls, particularly with respect to allocation of costs to LSC and other funding sources. Allocation weaknesses were a recurring issue across multiple sections of our review, including payroll, disbursements, credit cards, and derivative income, where costs were either charged directly to LSC without support, left unassigned, or not proportionately allocated across funding sources. These systemic deficiencies increase the risk of misallocations, questioned costs, and noncompliance with LSC requirements. Our findings are summarized in Figure 2.

Figure 2: Summary of Findings

Audit Section	Findings Summary
<i>Cost Allocation</i>	<p><u>Indirect costs not allocated to funding sources</u></p> <p><u>Policies not reflective of current practices</u></p>
<i>Payroll</i>	<p><u>Paid time off improperly charged to LSC –</u> <u>Questioned costs - \$605,929</u></p> <p><u>Reconciliations not performed in 2023</u></p> <p><u>Administrative user access not restricted in the payroll system</u></p>

Audit Section	Findings Summary
<i>Disbursements</i>	<p><u>Transactions not allocated to specific funding sources – Questioned costs - \$17,968</u></p> <p><u>Invoices not consistently paid by due date</u></p> <p><u>Required check request forms missing and invoices not marked as paid</u></p>
<i>Credit Cards</i>	<p><u>Transactions lacked supporting documentation - Questioned costs - \$11,426</u></p> <p><u>Transactions not allocated to specific funding sources</u></p> <p><u>Spending limits not consistently enforced</u></p> <p><u>Transactions made by non-authorized individuals</u></p> <p><u>Policies missing LSC-required elements</u></p>
<i>Derivative Income</i>	<p><u>Attorneys' fees not allocated in proportion to LSC support – Questioned costs - \$7,459</u></p> <p><u>Investment income allocations lacked proper documentation</u></p> <p><u>Policies contained contradictory requirements</u></p>



Audit Section	Findings Summary
<i>Property and Equipment</i>	<p><u>Some inventory items not locatable</u></p> <p><u>IT equipment outdated and unsupported</u></p> <p><u>Disposal policies for IT equipment with sensitive data missing</u></p>
<i>Budgeting and Management Reporting</i>	<p><u>“Budget to Actual” spending reports missing</u></p>
<i>General Ledger and Financial Controls</i>	<p><u>Old, uncashed checks and long-outstanding reconciliation items not timely resolved</u></p> <p><u>Bank reconciliation policies lacked key control requirements</u></p>
<i>Client Trust Funds</i>	<p><u>Old, uncashed checks not timely resolved</u></p>
<i>Contracting</i>	<p><u>Sole-source contracts had incomplete approvals</u></p> <p><u>Policies lacked LSC prior approval requirement for high-value expenditures</u></p>



Cost Allocation

We found that LAN appropriately categorized direct and indirect costs when performing allocations. However, we identified critical weaknesses in how indirect costs are assigned to LAN's various funding sources, including LSC. Indirect expenses were not allocated to specific funding sources, and some written policies did not reflect the actual practices being carried out by LAN employees. These findings were a pattern seen across payroll, disbursements, credit cards, and derivative income. The widespread allocation weaknesses create a significant risk of misallocations and noncompliance with LSC requirements.

LAN Did Not Allocate Indirect Costs to Funding Sources, Preventing Verification of Equitable Cost Distribution

LAN's indirect cost allocation¹ process did not allocate expenses to specific funding sources. While indirect costs were distributed among LAN's various departments, we were unable to determine which funding sources were ultimately charged.

LAN's process does not align with LSC's Financial Guide, §3.7.1, Cost Allocation, which requires that recipients maintain accounting systems capable of demonstrating the allocation of costs to each funding source and providing sufficient documentation for third-party review.

LAN confirmed that their accounting system lacks this capability, although they told us that they are in the process of developing and implementing such functionality. At the time of our audit, this process had not been implemented.

Without a system that allows for proper allocation of indirect costs, LAN may be unable to demonstrate that all costs were allocated equitably across funding sources, potentially resulting in questioned costs. Currently, LAN's system also does not support an adequate audit trail.

Recommendation 1

We recommend LAN implement a process to allocate indirect costs to funding sources with sufficient documentation to allow for third party review.

¹ **Indirect cost allocation:** The method of distributing overhead costs, such as administration, facilities, or IT, that support multiple programs, across those programs based on a consistent and justifiable formula.

LAN's Written Cost Allocation Did Not Match Actual Practices, Increasing the Risk of Mismanagement or LSC Noncompliance

The indirect cost allocation process described in LAN's Accounting Manual is not the process currently in use. The Manual states that indirect costs are allocated based on the percentage of time worked on each funding source. In practice, however, LAN allocates indirect costs based on budgeted full-time equivalents (FTEs)² and distributes them to departments instead of directly to funding sources.

LSC's Financial Guide, §1.3, Recipient Responsibility and Appendix 7, Required Accounting Policies and Procedures, requires that recipients maintain written policies and procedures that reflect actual practice.

LAN stated that its current accounting system does not allow indirect costs to be charged directly to funding sources. While LAN indicated it is developing and implementing a revised process, this was not complete at the time of our audit.

Without accurate and current written policies, staff may be uncertain about the proper allocation process, increasing the risk of mismanagement or noncompliance with LSC requirements.

Recommendation 2

We recommend LAN update its written policies to comply with LSC requirements and reflect current cost allocation practices.

² **Budgeted FTEs:** The number of full-time positions an organization plans and allocates funding for in its budget. One FTE typically equals one full-time worker's hours over a set period (e.g., 40 hours per week). Part-time roles are combined to represent a proportion of an FTE.

Payroll

LAN's payroll-related policies and procedures are generally consistent with LSC regulations and guidelines. However, we identified areas for improvement over paid time off (PTO) allocations, payroll reconciliations, and user access rights. LAN has made improvements since 2024 with the assistance of their outsourced fiscal management contractor, but further actions are necessary to formalize and sustain these corrections.

LAN Improperly Charged Paid Time Off Directly to LSC, Resulting in Inaccurate Cost Allocations

From January 1, 2023, through March 31, 2025, LAN charged 19,932 hours of PTO, totaling \$605,929, directly to LSC. This practice did not reflect the actual distribution of work across funding sources.

Figure 3: Paid Time Off Directly Charged to LSC

Time Period	PTO Hours	\$ Equivalent
January to December 2023	14,964	\$451,094
January to December 2024	4,558	\$141,490
January to March 2025	410	\$13,345
Total	19,932	\$605,929

LAN instructed staff to code PTO to funding code "Time Off" without proper review, leading to incorrect direct allocation charges of PTO to LSC. Furthermore, finance staff received neither the complete timekeeping data from compliance staff, which is essential for creating a

labor cost distribution report, nor the necessary category codes³ to verify the coding for an accurate allocation.

LSC Financial Guide §2.2.3, Reconciliations, requires payroll allocations to reflect actual work performed on LSC-eligible activities. Leave time, including PTO, must be allocated proportionally based on time records.

The incorrect charging of PTO hours directly to LSC increases the risk of misrepresentation of the financial records and labor cost allocations associated with LSC activities. This may lead to significant discrepancies in financial reporting.

LAN management told us that they recognize the importance of accurately treating PTO as a fringe benefit and allocating it appropriately as an indirect cost in accordance with LSC guidelines. They explained that while improvements in the labor cost allocation process have reduced the direct charging of PTO, gaps still exist in compliance verification. The departure of the former Chief of Compliance (COC) shortly before the OIG's visit highlighted the need for enhanced oversight. The former COC was responsible for reviewing time entries for accuracy and alignment with LSC requirements; however, the former COC did not conduct a detailed review of the activity or category-level codes. With new leadership, LAN stated they are confident in strengthening their compliance measures and plan to:

- enhance timekeeping controls for accurate entry of category and source codes for all time off;
- re-train staff on proper time entry procedures and expectations; and
- review 2025 year-to-date allocations to assess whether any adjustments or reclassifications are needed.

³ **Category Codes:** Identifying codes used in LAN's timekeeping system to classify hours worked by type. For example, employees use code X1 for vacation leave and code X2 for sick leave. These codes help to ensure accurate tracking and labor costs allocations.

Questioned Costs

We identified \$605,929 in questioned PTO costs⁴ (19,932 hours) directly charged to LSC during the audit period and are referring this amount to LSC Management for review and action pursuant to 45 C.F.R § 1635.4(a) (timekeeping standards), 45 C.F.R § 1630.5(e) (allowability of costs under LSC grants or contracts), and the LSC Financial Guide, §2.2.3(Reconciliations).

Recommendation 3

We recommend LAN establish a review process requiring verification of PTO coding before submission to their Finance Department. Staff should be trained in the correct use of timekeeping codes, and all LAN employees should timely provide the Finance Department with complete timekeeping records, including category codes.

LAN Did Not Perform Payroll Reconciliations in 2023, Risking Misallocating Costs

LAN did not have a formal reconciliation process in place prior to 2024. In 2023, LAN did not reconcile labor cost distribution reports to timekeeping data. This meant that they failed to cross-verify the accuracy of employee payroll allocations with the actual hours worked as recorded in their timekeeping system. Instead, they relied on a single year-end estimate, without supporting payroll records. A labor cost distribution report shows how employee payroll costs are distributed across grants or cost centers, based on time sheets or allocation methods.

Monthly reconciliations began in January 2024 under LAN's outsourced fiscal management contractor in line with LSC guidance.

⁴ A "questioned cost" is defined in the LSC Regulation 45 C.F.R. § 1630.2(f) as an expense identified through an audit or other review that may violate applicable requirements, lack adequate supporting documentation, or seem unnecessary or unreasonable given the circumstances. Additionally, the Inspector General Act defines "questioned cost" in 5 U.S.C. § 405(a)(4) as a cost that is questioned by the Office of Inspector General due to an alleged violation of any provision of a law, regulation, contract, grant, cooperative agreement, or other agreement/document governing the expenditure of funds; a finding that, at the time of the audit, the cost is not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. An "unsupported cost" as defined in 5 U.S.C. § 405(a)(7), is a cost that is questioned by the Office because it found that, at the time of the audit, the cost was not supported by adequate documentation.

LSC Financial Guide §2.2.3, Reconciliations, requires recipients to reconcile labor cost distribution reports, or alternative reports, with timekeeping records at least annually before final fund allocation entries are made.

Costs may have been improperly allocated to LSC in 2023, increasing the risk of inaccurate financial reporting.

Recommendation 4

We recommend LAN develop a comprehensive standard operating procedure that outlines the current wage allocation and reconciliation process, including clear guidelines on documenting adjustments or changes to the process, personnel responsibilities, and timelines.

LAN Did Not Restrict Administrative User Access in Its Payroll System, Risking a Lack of Segregation of Duties

Three key personnel from the human resources and finance departments, along with an accountant, had administrative access to the payroll system, allowing them to make payroll changes. While LAN uses a manual, three-tier approval process, these controls are not enforced within the system.

LAN has not limited the administrative privileges based on user responsibilities, relying on manual checks to detect unauthorized changes.

Yet the LSC Financial Guide §2.2.2, Time and Attendance (Payroll), stipulates that recipients ensure that payroll is disbursed only upon appropriate review by personnel with proper segregation of duties.

Lack of system-enforced controls increases the risk of unauthorized payroll modifications, including changes to users' own or others' compensation.

Recommendation 5

We recommend LAN review and revise system access controls to limit administrative rights to essential personnel, aligning user rights with specific roles. At a minimum, we recommend that LAN designate one individual as primary administrator to ensure that payroll staff cannot modify or approve their own pay.

Disbursements

We reviewed LAN's policies and procedures for disbursements⁵ and the policies generally complied with LSC guidance. We tested 127 disbursements totaling \$1,026,478, to assess compliance with LAN's written policies and the LSC Financial Guide. Our testing revealed several issues, including late payments, missing check request forms, and non-business and non-LSC-allowable expenses. Additionally, of the 127 disbursements, 87, totaling \$788,724, were coded as "No Grant/Unknown/Unassigned," and LAN was unable to determine if any LSC funds were used for these transactions.

LAN Did Not Allocate 87 Disbursements to Specific Funding Sources, Which Could Lead to Unallowable Costs Being Charged to LSC

Of the 127 disbursements reviewed, 87, totaling \$788,724, were coded to a funding source titled "No Grant/Unknown/Unassigned," which is a default code LAN uses when a funding source is not specified or allocated. LAN was unable to determine whether any LSC funds were used. As noted in the Cost Allocation section of this audit report, LAN does not allocate expenses to specific funding sources. As a result, we could not determine if LSC funds were used because LAN lacked sufficient documentation to trace the funder in their general ledger.

LAN pooled unrestricted and LSC General Operating funds into one bank account, making it difficult for LAN to trace specific expenses back to LSC funding. LAN conducts any final allocations to a grant, if one is specified, during a month-end reconciliation. However, LSC Financial Guide §3.7.1, Cost Allocation, requires recipients to maintain accounting systems sufficient to demonstrate the proper allocation of costs to each funding source. Supporting documentation must allow for third-party (someone outside the organization) review.

Failure to document funding allocations may result in costs being charged to LSC that are unallowable or unsupported. Inadequate cost allocation documentation increases the risk of noncompliance with LSC grant requirements.

⁵ **Disbursements:** Payments by cash, check, or made electronically to vendors including employee travel and other reimbursements.

Questioned Costs

Of the 87 disbursements without funding allocations, four disbursements, totaling \$17,968, were for unallowable purposes related to meals. We are referring the full amount to LSC Management as questioned costs for their review and action, since LAN could not verify whether LSC funds were involved. Per the LSC Financial Guide §3.7.3.a, Disallowed Costs, meals are generally considered unreasonable and unnecessary unless tied to specific events or training. LSC Program Letter 22-4 further prohibits other discretionary items such as gifts and certain promotional items.

Recommendation 6

We recommend LAN implement controls to ensure all disbursements are properly coded in the accounting system with grant codes and are supported by source documentation clearly indicating the funding source.

Recommendation 7

We recommend LAN implement a process to ensure only allowable expenses are allocated to LSC in accordance with applicable LSC requirements and guidance.

LAN Did Not Consistently Pay Invoices by Their Due Dates, Which Resulted in Late Payments

Of the 127 disbursements reviewed, 15 disbursements, totaling \$167,331, included invoices that were paid late. These disbursements covered 25 invoices, with 19 of them paid late. The payment delays ranged from 1 to 131 days, with an average delay of 23 days.

LAN management stated that they enter invoices on the day of receipt or the following day, with checks printed each Tuesday. They indicated that delays in payment were attributed to vendors not submitting invoices promptly or designated approvers being absent.

Per LSC Financial Guide §3.2.4, Cash Disbursements, recipients must have procedures in place for timely review and approval of transactions.

Delinquent payments could lead to late fees, strained vendor relationships, and diminished bargaining power.

Recommendation 8

We recommend LAN strengthen controls to ensure invoices are paid timely by routinely reviewing outstanding payables and prioritizing payment of those approaching, or past, their deadline.

LAN Did Not Mark Invoices as Paid or Use Required Check Request Forms, Increasing the Risk of Improper or Duplicate Payments

Of the 127 disbursements reviewed, 125, totaling \$1,015,316, had invoices that were not marked as “paid,” as required by LAN’s Accounting Manual. Additionally, 124 transactions totaling \$1,025,257 were missing required check request forms.

LAN management stated that their Accounting Manual should have been updated earlier to reflect that these practices are no longer required and have not been for some time.

According to the LAN Accounting Manual, the Accountant receives all check requests along with an approved check request form, a receiving report, and the related invoice. The Manual also states that “check requests or a stamp on the invoice are to be used to document all cash disbursements not based on a purchase invoice and related purchase order.”

The LSC Financial Guide §3.2.4, Cash Disbursements, specifies that “recipients must have clear procedures for preparing, voiding, safeguarding, or otherwise canceling source documentation to prevent duplicate payments.”

LAN no longer seems to be following procedures described in their Accounting Manual. Failing to mark invoices as “paid” and omitting check request forms increases the risk of duplicate or improper payments and makes it difficult to verify payment authorization. This could lead to employees or vendors receiving unapproved or illegitimate payments.

Recommendation 9

We recommend LAN ensure all invoices are clearly marked as “paid” following disbursement.



Recommendation 10

We recommend LAN work with their Board to determine whether check request forms should remain a requirement for all disbursements.

- If they are required, ensure all disbursement packages include a completed form.
- If they are no longer required, update the Accounting Manual to establish disbursement procedures that ensure source documentation is modified to prevent duplicate payments.



Credit Cards

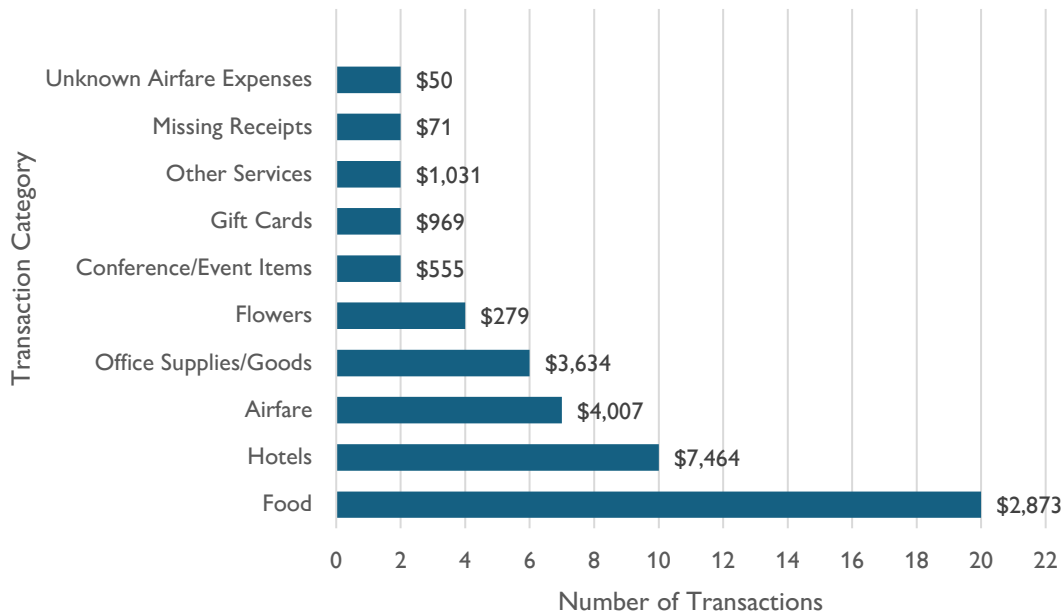
Our review of 148 transactions totaling \$93,344 found exceptions in 96 transactions, totaling \$46,854, which included: inadequate supporting documentation, unenforced spending limits, and use by unauthorized cardholders. Additionally, 142 transactions totaling \$80,158 were coded as “No Grant/Unknown/Unassigned,” making it impossible to determine whether any LSC funds were used for these transactions. We also found that LAN’s credit card policies were incomplete when compared to LSC’s Financial Guide.

LAN Did Not Maintain Adequate Documentation for 57 of 148 Credit Card Transactions, Increasing the Risk of Unauthorized Charges

Of the 148 transactions we reviewed, we identified 57 transactions totaling \$20,933 that lacked required support:

- Fifty-five transactions (\$20,862) lacked documentation supporting the business purpose.
- Two transactions (\$71) had no receipt.

Figure 4: Credit Card Transactions Lacking Adequate Support



Insufficient supporting documentation may lead to credit card charges being incurred without the knowledge or approval of management, or at unreasonable prices or terms; and inadequate internal verification can result in funds being disbursed for goods and services that were not received.

Questioned Costs

Of the 57 credit card transactions lacking required support, we considered 44 transactions, totaling \$11,426, to be questioned costs and will refer this amount to LSC Management for further review and action. Specifically, there is no support for the numerous hotel stays, airfare purchases, food expenses (which are generally unallowable), office supplies, gift card purchases, flower expenses, airline-related fees, social media charges, and an international transaction fee. These purchases lack clear business justifications or receipts, making it difficult to assess their appropriateness. In accordance with 45 C.F.R. § 1630.5(a)(2), costs charged to LSC grants must be reasonable, necessary for the grant's purpose, and in accordance with 45 C.F.R. § 1630.5(a)(8), supported by adequate, contemporaneous documentation. The LSC Financial Guide §3.7.3.a, Disallowed Costs, states that meals are generally unallowable unless directly tied to specific events or training. LSC Program Letter 22-4 further clarifies that discretionary items such as gifts and certain promotional expenses are prohibited.

LAN Management explained that LSC General Operating funds are pooled with other General Operating funds in a single bank account, making it difficult to identify which specific expenses were paid using LSC funds.

Unallowable use of LSC funds may violate LSC regulations, leading to repayment, and limit LAN's ability to advance its mission and use funds as intended.

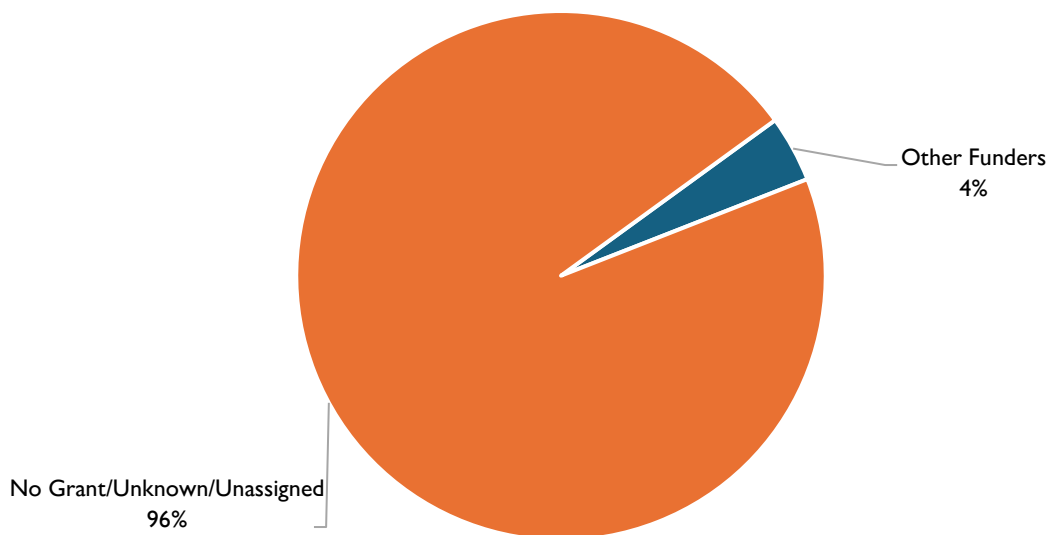
Recommendation 11

We recommend LAN ensure all credit card charges are supported by the required documentation, per LAN's policies and procedures, along with contemporaneous records that clearly state the business purpose and demonstrate compliance with LSC requirements.

LAN Did Not Allocate 142 Credit Card Transactions, Increasing the Risk of Charges to Restricted Funding Sources

Our review of 148 credit card transactions found that six, totaling \$13,186, were correctly charged to other funders. The remaining 142 transactions, totaling \$80,158, were coded as “No Grant/Unknown/Unassigned” in LAN’s accounting software; LAN could not determine if LSC funds were used to pay for these transactions. As noted in the Cost Allocation section, LAN does not allocate expenses to specific funding sources. As a result, we could not determine if LSC funds were used for numerous transactions because LAN lacked sufficient documentation to trace the funder to their general ledger.

Figure 5: Sampled Credit Card Transaction Allocations



The LSC Financial Guide, §3.7.1, Cost Allocation, states, “LSC requires recipients to maintain accounting systems sufficient to demonstrate the proper allocation of costs to each funding source.”

The LSC Financial Guide also notes, “Overall, the recipient’s cost allocation policy, procedures, and documentation must allow for third party review.”

LAN management stated that these expenses were paid from unrestricted general operating funds, which include both LSC and non-LSC sources in a single bank account. Because of this,

they said it is difficult to determine whether LSC funds were used for specific expenses. Final grant allocations, if any, are made during the credit card reconciliation process at month-end.

LAN's inability to provide funding allocations points to weak internal controls and lack of compliance with LSC guidelines. This may also lead to funds being used for impermissible and unnecessary purchases.

Recommendation 12

We recommend LAN implement controls to ensure that all transactions are assigned a grant code in the accounting system and have supporting documentation that clearly identifies the funding source.

LAN Did Not Consistently Enforce Credit Card Spending Limits, Resulting in Excess Charges

We identified 12 instances where cardholders exceeded their approved limits; seven of these lacked documented approval for the excess spending.

Figure 6: Funds Spent in Excess of Credit Card Limits

Statement	Cardholder	Limit	Amount Spent	Excess Amount
November 2023	1	\$10,000	\$11,430	\$1,430
September 2024	2	\$10,000	\$12,732	\$2,732
November 2024	3	\$1,000	\$2,191	\$1,191
December 2024	3	\$1,000	\$7,531	\$4,531
December 2024	4	\$3,000	\$3,478	\$478
January 2025	3	\$1,000	\$5,525	\$4,525
March 2025	3	\$5,000	\$11,911	\$6,911
Total				\$21,798

In all seven instances, LAN was unable to provide documentation supporting an approved increase in the cardholders' monthly limits. These instances represent a total of \$21,798 in spending above approved limits.

LAN management explained that LAN's transition to another credit card company required several months to completely transfer Information Technology (IT) related subscriptions and



recurring charges. To ensure payments continued without interruption, they temporarily increased card limits LAN management also noted a one-time chair purchase required a separate, temporary limit increase to complete the transaction. However, LAN did not provide an explanation for the failure to adhere to established spending limits and unsupported over-limit expenditures.

Exceeding credit card limit thresholds may result in staff incurring charges without the knowledge or approval of appropriate management, or at unreasonable prices or terms. Without spending limits, there is a greater risk of unrecoverable losses in the event of theft or fraud. Card limits help prevent such losses by capping monthly charges.

Recommendation 13

We recommend LAN document and enforce credit card spending limits, ensuring any deviations or temporary increases are approved by the appropriate individual with the reason documented.

LAN Allowed Credit Cards to Be Used by Non-Authorized Individuals, Increasing the Risk of Improper Charges

LAN's policy allows credit cards only for authorized individuals who have signed a user agreement acknowledging their responsibility for proper use and safeguarding of the card. However, we found ten unauthorized individuals used LAN credit cards, and three authorized users placed orders using other cardholders' accounts. A total of 51 transactions totaling \$30,842 were not made by the authorized cardholder.

LAN management stated that cards are not shared, and only authorized cardholders can make transactions except for instances where the person who made the purchase received permission from the cardholder. LAN's Accounting Manual does not clearly prohibit employees without a signed user agreement from using authorized cardholders' credit cards.

If credit cards are used without sufficient oversight by the authorized cardholder, expenses may be incurred at unreasonable prices or terms, or for goods or services that are not allowable under applicable regulations or policies.

Recommendation 14

We recommend LAN implement controls to ensure that only authorized cardholders can access credit card information. If a non-cardholder must make a purchase, prior written authorization (such as an email or memo) should be required and the transaction documented accordingly.

LAN's Credit Card Policies Were Missing Required Elements from the LSC Financial Guide, Which Could Increase the Risks of Fraud, Waste, or Abuse

We reviewed LAN's credit card policies and found they generally aligned with LSC guidance. The LAN Accounting Manual includes information on card issuance, authorized use, documentation, approvals, prohibited expenses, monitoring, and review of Executive Director expenses. However, it lacks specific requirements outlined in the LSC Financial Guide, including transaction and account limits and deadlines for submitting supporting documentation.

LAN management acknowledged this omission and stated they plan to update their Accounting Manual accordingly to align with the LSC Financial Guide. Specifically, LAN does not align with the LSC Financial Guide, §3.2.4.c, Credit and Debit Purchase Cards, which requires a Board-approved policy for credit and debit purchase cards that include guidelines on personal use and prohibited charges, as well as transaction and account limits to mitigate fraud risks. The policy must also address documentation for deviations, deadlines for submitting supporting documentation, and procedures for authorized users to review and acknowledge the purchase card policy.

Unwritten delegations of authority and undocumented practices can create confusion and inefficiencies. Without documented spending limits, there is a greater risk of unrecoverable losses if theft or fraud occurs. Card spending limits are basic fraud controls because they cap potential losses until any theft is reported.

Recommendation 15

We recommend LAN update their Accounting Manual to include transaction and account limits and deadlines for submitting supporting documentation, as required by the LSC Financial Guide.



Derivative Income

We reviewed LAN policies, procedures, and practices related to derivative income, including attorneys' fees and investment income. We found improper allocation of attorneys' fees and document retention issues related to maintaining support for allocations. We also found that LAN's written derivative income policies had contradictions in requirements when compared to LSC's Financial Guide.

LAN Did Not Allocate Attorneys' Fees in Proportion to LSC Support, Which May Misrepresent Revenue Sources

LAN did not allocate attorneys' fees to the appropriate funding sources per each caseworker's timekeeping record. Specifically, all attorneys' fees earned during the audit period, totaling \$24,436, were incorrectly coded and allocated to Administrative funds. As a result of this misallocation, we identified attorneys' fees totaling \$7,459 that should have been allocated to LSC.

This conflicts with LSC Financial Guide §3.1.4, Derivative Income, which requires derivative income, including attorneys' fees, to be allocated in proportion to LSC's financial support.

Additionally, 45 C.F.R. § 1630.17(a)⁶ states:

Derivative income resulting from an activity supported in whole or in part with LSC funds shall be allocated to the fund in which the recipient's LSC grant is recorded in the same proportion that the amount of LSC funds expended bears to the total amount expended by the recipient to support the activity.

The inaccurate coding occurred due to limitations in LAN's accounting system and manual coding errors. LAN management acknowledged the improper allocations and stated that procedures are being updated to ensure that case-specific time reporting is accurately reflected in financial allocations, with improvement targeted for implementation by fall 2025.

⁶ LSC Regulation 45 C.F.R. § 1609.4(b) also states that attorneys' fees received by a recipient or an employee of a recipient for representation supported in whole or in part with funds provided by LSC shall be allocated to the fund in which the recipient's LSC grant is recorded in the same proportion that the amount of LSC funds expended bears to the total amount expended by the recipient to support the representation.

Incorrect allocations of derivative income can result in questioned costs and misrepresentation of revenue sources. Such misrepresentation may also affect the reporting of revenue in LAN's financial records and statements.

The OIG is questioning \$7,459 in attorneys' fees that should have been allocated to LSC. We will refer to LSC Management the amount for review and action.

Recommendation 16

We recommend LAN implement procedures for adequate review of case timekeeping to ensure accurate and proper allocation of attorneys' fees.

LAN Did Not Maintain Adequate Documentation to Support Investment Income Allocations, Increasing the Risk of Noncompliance with LSC Grant Conditions

LAN did not maintain adequate documentation identifying which funding sources contributed to the investment account or how the income was allocated. As a result, there was no audit trail for us to follow, meaning we could not verify whether the income was equitably allocated or whether LSC received its proportionate share.

Additionally, LAN lacked supporting documentation for \$222,307 in investment income reported in their fiscal year 2023 audited financial statements and \$106 on the LSC Supplemental Schedule. Internal worksheets also contained unexplained variances totaling \$1,735 which we could not reconcile as well as an unexplainable entry.

LAN is not in compliance with the following provisions of the LSC Financial Guide:

- Section 2, Accounting Systems and Governance, requires that all recipients maintain accounting systems and financial records to accurately account for all funds.
- Section 2.1.2, Fund-Based Accounting, requires a fund-based accounting system that supports amounts reported in audited financial statements.
- Section 3.1.4, Derivative Income, requires recipients to record derivative income as additional LSC grant revenue in proportion to the share of support provided by LSC funds.

LAN management indicated that the previous accounting staff did not provide sufficient documentation to support the investment income reported in the audited financial statements. LAN management acknowledged this deficiency and reported reviewing and updating procedures to ensure investment and interest income allocations are properly documented going forward, with implementation expected by fall 2025.

Failure to maintain adequate documentation for derivative income, including lack of an audit trail, increases the risk of questioned costs and limits LAN's ability to demonstrate compliance with LSC grant conditions to LSC and third parties.

Recommendation 17

We recommend LAN implement procedures to ensure that the source and allocation of all investment income are adequately documented in sufficient detail and retained in accordance with applicable document retention requirements to support accurate financial reporting and compliance with LSC requirements.

LAN's Written Policies Had Contradictory Requirements Over Attorneys' Fees, Increasing the Risk of Misallocations and Inefficiencies

We identified a discrepancy between LAN's Fee Generating Cases Policy and its Accounting Manual regarding attorneys' fee allocation. The Fee Generating Cases Policy states that attorneys' fees should be proportionally allocated to LSC, while the LAN Accounting Manual states that any LSC-supported case should allocate fees entirely to LSC.

This contradiction does not align with LSC Financial Guide §1.3, Recipient Responsibility, which requires that policies and procedures be written and accurate. The errors occurred due to outdated or inconsistent updates during multiple policy revisions.

Without clear and consistent written policies, staff may apply procedures incorrectly, increasing the risk of misallocations and inefficiencies.

Recommendation 18

We recommend LAN ensure consistency between their Fee Generating Cases Policy and the LAN Accounting Manual regarding the allocation of attorneys' fees.



Property and Equipment

We reviewed LAN's policies, inventory records, and practices related to fixed assets and electronic devices to assess compliance with the LSC Financial Guide and 45 C.F.R. Part 1631 – Purchasing and Property Management. We also evaluated inventory controls, tagging, asset movement and disposal documentation, and the treatment of IT equipment containing sensitive data.

We found that LAN's control environment for fixed assets and electronic devices is generally effective, with appropriate tagging, and biennial inventories in place. However, inventory reconciliation was incomplete due to missing assets, undocumented transfers, and damaged or illegible tags. Additionally, unsupported IT equipment remained in use, and disposal of equipment containing sensitive data was not properly documented.

LAN Could Not Verify the Status or Location of Several Inventoried Items, Which May Lead to Undetected Loss or Theft

During physical inventory testing, LAN was unable to verify the status or location of nine out of 15 selected assets. Of the noted exceptions:

- Two tablets and a cell phone were located but the tags were worn and illegible so we could not verify if the tag numbers were accurate. The total purchase price of these items was \$928.
- Four computers, a docking station, and a file cabinet with a total purchase price of over \$3,490 (the purchase price of one computer and the docking station were not in the property records) could not be located. LAN management noted that these items were likely decommissioned; however, no paperwork existed to support decommission.

The assets described above were missing, decommissioned without documentation, or had damaged/illegible tags, indicating that inventory records had not been updated accurately.

Additionally, we found LAN inconsistently updated property records after asset movement, replacement, or disposal, and did not consistently resolve reconciliation discrepancies with documentation.

LSC Financial Guide §3.6.2, Physical Inventory, requires reconciliation of physical inventory with the property ledger. In addition, LAN’s Accounting Manual §16, Property Accounting and Inventory, states that records should be adjusted if items have moved or cannot be located.

Failure to reconcile inventory records increases the risk of asset loss or theft, inaccurate reporting, and noncompliance with asset tracking requirements.

Recommendation 19

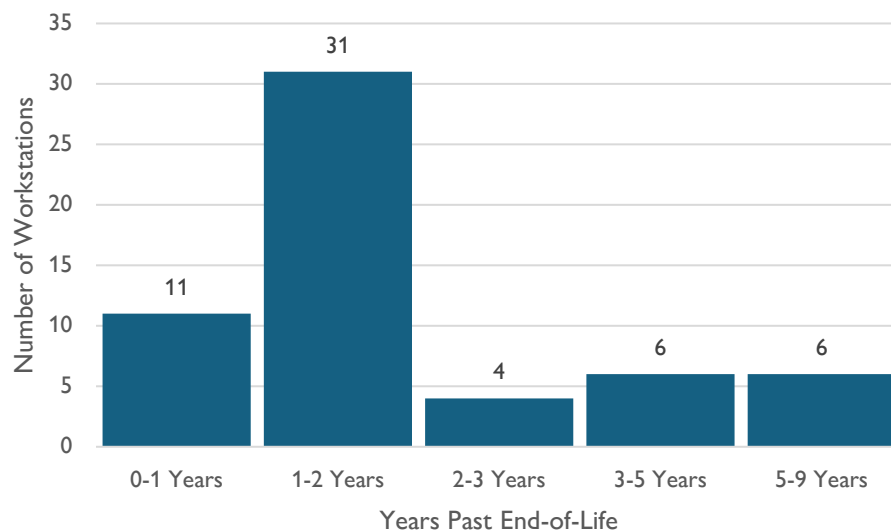
We recommend LAN document all asset movements, regularly replace damaged or missing tags and record inventory discrepancies in both the inventory records and the general ledger.

LAN Uses Outdated and Unsupported IT Equipment, Increasing the Risk of Damaging Cybersecurity Incidents and Data Breaches

Our review of LAN’s electronic device tracking logs found 58 active workstations were past their five-year end-of-life replacement policy. Of these, one workstation as well as one server were also found to be running unsupported operating systems, no longer eligible for security updates.

None of the identified devices were under warranty.

Figure 7: Outdated IT Workstations



LAN management stated that the replacement cycle was not consistently followed due to resource limitations and compatibility concerns with older systems.

LSC Financial Guide §3.6.2, Physical Inventory, requires recipients to maintain and dispose of IT equipment that stores sensitive data. Continued use of unsupported hardware increases the risk of data breaches, operational failure, and noncompliance with security protocols.

Recommendation 20

We recommend LAN promptly decommission outdated equipment and reinforce LAN's Device Replacement Policy. Devices no longer under warranty or running unsupported systems should be retired or isolated with appropriate risk mitigation. Exceptions should be supported by documented business rationale.

LAN's Written Policies Did Not Address LSC Disposal Requirements for IT Equipment Containing Sensitive Data, Which Could Lead to Severe Consequences of Data Breach

LAN's Accounting Manual includes basic procedures for tracking capital assets, conducting biennial inventories, and recording disposals in the general ledger. However, it does not address LSC's specific requirements for the inventory and disposal of IT equipment that may store sensitive data, such as personally identifiable information of employees and clients.

Additionally, the Manual does not require documentation of the disposal method, approval, date, or rationale, nor does it reference 45 C.F.R. Part 1631– Purchasing and Property Management.

Per The LSC Financial Guide §3.6.2, Physical Inventory, recipients must inventory all IT equipment that stores sensitive information, regardless of value, and dispose of it securely. Section 3.6.3, Disposal, requires that written disposal procedures include the date, method, disposal, approval, valuation (if sold), and reason for disposal; disposal of personal [i.e. not real] property must comply with 45 C.F.R. § 1631.12.

LAN management acknowledged this omission and stated they plan to update the Manual accordingly.

Without written policies covering these areas, LAN risks inconsistent implementation, potential loss of sensitive data, and noncompliance with LSC requirements.

Recommendation 21

We recommend LAN revise its Accounting Manual to include written procedures for inventory and disposal of IT and other sensitive equipment. The policy should require documentation of disposal method, date, approval, and valuation (if sold), and include controls to ensure protection of sensitive information on retired devices.



Budgeting and Management Reporting

We reviewed LAN's budgeting and management reporting processes and found that the monthly reporting packages were prepared in all periods reviewed, and the budgeting process was organized and involved top management. However, we found that one required report was missing.

LAN Did Not Prepare a Report Comparing Budgeted to Actual Expenses, Which May Hinder Management's Ability to Monitor Grant Performance, Spending Trends, and Compliance

LAN did not consistently prepare funding source budget-to-actual reports, which compares the planned (budgeted) and actual spending of funds from a specific source. These reports track financial performance and ensure proper use of funds. For three of the five months reviewed, LAN did not include a funding source budget-to-actual report; in the other two months, the report provided revenue figures but omitted expenditures. Additionally, LAN's Accounting Manual does not require preparation of this report.

Nonetheless, LSC Financial Guide §2.6, Internal Management Reporting, requires recipients to prepare a "Funding Source Budget vs. Actual" report; and §1.3, Recipient Responsibility, requires that procedures implementing LSC Financial Guide requirements be written.

LAN tracks this information in a separate workbook, but this was not part of the monthly reporting package.

Without a complete funding source budget-to-actual report, management may lack key information needed to monitor financial health, control spending, and ensure accountability.

Recommendation 22

We recommend LAN require that complete, funding source budget-to-actual reports are prepared monthly, showing revenue and expenses by funding source. This requirement should be reflected in LAN's written policies.

General Ledger and Financial Controls

We reviewed LAN's policies and processes related to general ledger and financial controls and performed testwork on various areas including cash receipts, petty cash, and bank deposit processes. We found that LAN maintained adequate internal controls over cash receipts, petty cash, and bank deposits, and performed timely monthly reconciliations. However, we found untimely resolution of checks that had not been cashed or deposited for an extended period of time—known as stale checks—and long-outstanding reconciliation items, and written reconciliation policies that lacked key elements.

LAN Did Not Timely Resolve Stale Checks or Long-Outstanding Reconciliation Items, Risking Misstated Cash Balances and Audit Issues

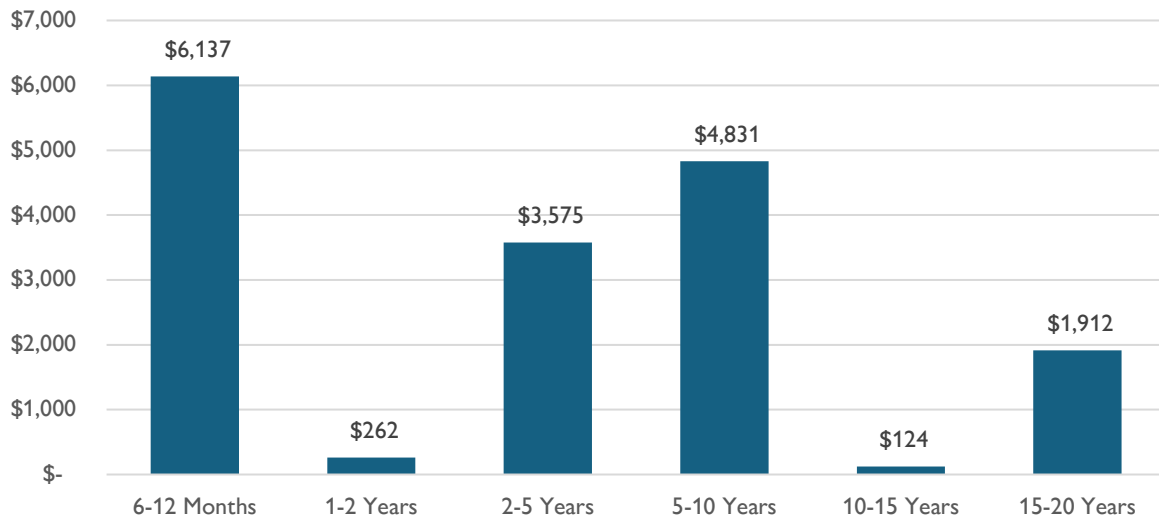
We identified material unresolved bank reconciliation items, including long-outstanding checks and deposit adjustments. The February 2025 reconciliation for one operating account indicated:

- over \$6 million in outstanding payments;
- over \$1 million in unresolved deposit adjustments; and
- over \$3,000 in outstanding checks dating back to 2006.⁷

Reconciliations for LAN's other operating account consistently included 17 to 20 outstanding checks for over six months, with a monthly total ranging from \$8,668 to \$148,805.

⁷ We identified additional outstanding checks in the Client Trust Funds section of this report.

Figure 8: Age and Amount of Outstanding Checks as of February 2025



LAN management stated the exceptions were caused by turnover in key accounting roles, resulting in reconciliations being performed inconsistently. In some cases, records were incomplete or generated outside of standard procedures. Adjustments to bank registers were made without clear documentation, and long-standing items accumulated over time without formal follow-up or resolution. Unresolved checks that remain outstanding beyond a certain period may also be subject to state escheatment laws, which require organizations to remit unclaimed funds to the state after a defined period. Failure to comply with state escheatment requirements may expose LAN to regulatory risk and potential penalties.

Per LSC Financial Guide §3.2.1.c, Bank Statements and Reconciliations, “Any checks identified as outstanding for six months or more are required to be investigated and resolved.”

Failure to clear stale checks may result in materially misstated cash balances raises concerns about the accuracy and reliability of financial reporting.

Recommendation 23

We recommend LAN review and resolve all outstanding checks older than six months consistent with LSC policy and state escheatment requirements. Unresolved balances from

prior periods should be investigated, documented, and cleared where appropriate, including outstanding payments and deposit adjustments.

Recommendation 24

We recommend LAN update the Accounting Manual to require regular review of stale checks with clearly defined responsibilities and documentation standards.

LAN's Bank Reconciliation Policy Lacked Key Control Requirements, Increasing the Risk of Inconsistent Performance of Reconciliations

LAN has a written policy requiring monthly bank reconciliations; however, it does not include key control elements, such as:

- a required timeframe for completing reconciliations after month-end;
- a requirement for preparers to sign and date reconciliations; and
- procedures for voiding checks, including retention of voided items, documentation of reasons for voiding, and proper general ledger treatment.

These omissions appear to stem from a focus on broad procedural guidance rather than detailed internal control requirements. While reconciliations are performed, the lack of defined expectations increases the risk of inconsistent execution, especially during staff turnover or high workload periods, which may jeopardize the accuracy and integrity of financial records, resulting in potential misstatements and ineffective management oversight.

The LSC Financial Guide §3.2.1.c, Bank Statements and Reconciliations, requires that bank reconciliations be completed monthly, reviewed by management, and supported by retained documentation. Additionally, it states that voided checks must be physically retained, marked "VOID," and recorded with supporting documentation.

Recommendation 25

We recommend LAN revise their bank reconciliation policy to:

- establish a timeline for completing reconciliations (e.g., within 30 days of month-end.);
- require preparers to sign and date reconciliations; and
- include procedures for voiding checks, including physical retention, reason for voiding, and accounting treatment.



Client Trust Funds

LAN performed timely reconciliations of client trust accounts⁸ and maintained adequate transaction documentation. However, we identified internal control weaknesses related to unresolved outstanding checks from clients.

LAN Did Not Resolve All Checks Outstanding for More Than Six Months, Increasing the Risk of Errors, Fraud, and Noncompliance with State Escheatment Laws

Six bank reconciliations from the years 2022-2024 included 100 checks that had been outstanding for more than six months.⁹

LSC Financial Guide §3.2.1.c, Bank Statements and Reconciliations, states: “Any checks identified as outstanding for six months or more are required to be investigated and resolved.”

LAN management stated that these items, previously overseen by the former Senior Accountant, remained unresolved due to challenges in locating payee contact information. To address this issue going forward, LAN has implemented an escheatment process as part of the month-end close.

Failure to investigate and resolve stale checks increases the risk of financial reporting errors, fraud, and noncompliance with state escheatment laws.

Recommendation 26

We recommend LAN resolve all client trust checks outstanding for more than six months in accordance with LSC requirements and applicable state escheatment laws.

⁸ **Client trust account:** A separate bank account used to hold funds on behalf of clients, typically for pending legal matters, ensuring the money is kept distinct from the organization’s own operating funds.

⁹ We identified additional outstanding checks in the General Ledger and Financial Controls section of this report.

Contracting

We reviewed LAN's contracting policies, procedures, and practices to assess compliance with LSC requirements. We found that, while LAN's contract files included documentation of the procurement process, including bids and supporting materials, several contracts lacked required approvals; additionally, the written policies omitted key elements required by LSC guidance.

LAN Did Not Consistently Obtain Required Approvals for Sole Source Contracts, Which Could Lead to Unjustified Expenditures

All contracts in our sample were on file, substantially complete, and aligned with contract terms and deliverables. However, we identified issues with sole source contract¹⁰ documentation and internal approvals.

Of the three contracts requiring sole source justification, two lacked proper dual approval:

- one lacked signatures from both the Executive Director and Finance Director.
- one referenced the approval of the Director of Finance and the Chief of Business Administration via email but did not include documentation of the Executive Director's approval.

LAN's Accounting Manual requires that sole source procurements be justified, documented, and approved by both the Executive Director and Director of Finance before purchase. Management attributed the missing documentation to staff disruptions during the procurement period.

Inadequate approval controls for non-competitive procurements increase the risk of unjustified expenditures and inefficient spending.

¹⁰ **Sole-source contracts:** Contracts awarded without competition when the grantee determines that only one vendor can reasonably meet the requirements, due to specialized expertise or an urgent need.

Recommendation 27

We recommend LAN implement a verification step to ensure all required approvals for sole source contracts are obtained and documented before execution. Email approvals should be formalized through signatures or verified electronic authorization.

LAN's Contracting Policies Did Not Include the Required LSC Prior Approval for High-Value Expenditures, Risking Noncompliance and Unallowable Costs

LAN's Accounting Manual includes internal thresholds for approvals, competitive procurement procedures, and dual authorization controls. However, it does not explicitly require prior written approval from LSC before expending more than \$25,000 in LSC funds on contracts, purchases, or capital improvements.

Per 45 C.F.R. § 1630.6(b), recipients must obtain prior written approval from LSC before spending more than \$25,000 of LSC funds on:

- a single contract for services
- a single purchase or lease of personal property
- capital improvements
- combined service/purchase contracts
- any purchase of real estate

Without a written policy requiring prior LSC approval, LAN risks noncompliance with LSC regulations. Expenditures made without approval could also be deemed unallowable.

Recommendation 28

We recommend LAN revise the Accounting Manual to explicitly require prior written approval from LSC before expending more than \$25,000 of LSC funds on applicable contracts or purchases. The policy should reference 45 C.F.R. § 1630.6 and Part 1631 and require that evidence of LSC approval be retained in the procurement file.



OIG Evaluation of Grantee Management Comments

On December 2, 2025, LAN responded to the OIG’s draft report, agreeing with 22 recommendations - Recommendations 1-5, 7, 8, 11, and 15-28; partially agreeing with five - Recommendations 9, 10, 12, 13, and 14; and disagreeing with one - Recommendation 6. LAN included plans to update and implement their written policies and procedures for all recommendations, except for Recommendation 6. LAN’s responses are included in their entirety in Appendix IV.

The OIG determined that LAN’s proposed actions addressed 27 of the 28 recommendations. However, the proposed action for Recommendation 6 only partially addressed the recommendation. LAN maintained that because the indirect cost allocation process had not yet been implemented during the audit period, items classified under the “no grant” category pertain to unrestricted funds, not LSC charges. However, the OIG was unable to verify whether LSC funds were used correctly because LAN did not provide sufficient documentation to identify funding sources in their general ledger. The OIG will refer Recommendation 6 to LSC Management along with questioned costs related to payroll, disbursements, credit cards, and derivative income for further review and action.

Additionally, 27 recommendations will remain open until LAN provides the OIG with evidence of strengthened policies and procedures as detailed in Figure 9.

Figure 9: List of Supporting Documentation

Recommendation No.	Open Action Items and Required Documentation
1	Documentation showing allocation and system calculations are fully traceable and capable of supporting third-party review.
2	Revised cost allocation policies with evidence of Board approval.
3	Revised procedures enhancing the compliance review process, including verification of PTO coding before submission to the finance department, and evidence of staff training.
4	Comprehensive standard operating procedures for wage allocation and reconciliation, along with evidence of Board approval.
5	Updated payroll system user access rights restricting administrative privileges according to role, along with evidence of Board approval.



Recommendation No.	Open Action Items and Required Documentation
7	Revised indirect cost allocation methodology with additional steps to ensure unallowable transactions are not charged to LSC.
8	Updated Accounting Manual reflecting current accounts payable workflows and process improvements, with evidence of Board approval.
9	Revised Accounting Manual detailing current accounts payable processes, including system-based and procedural controls, that ensure disbursements are reviewed and authorized along with evidence of Board approval of the revised Accounting Manual.
10	Revised Accounting Manual detailing documentation requirements for review and approval of all disbursements, along with evidence of Board approval.
11	Documentation supporting credit card transactions charged to LSC, including but not limited to business purpose, receipts, and approvals, as required by LAN's policies and LSC requirements.
12	Evidence of improved controls and documentation practices over grant coding, and an established verification process which identifies funding sources for all transactions in the accounting system.
13	Revised Accounting Manual with enhanced approval and documentation processes for temporary adjustments on credit card spending limit increases, with evidence of Board approval.
14	Revised Accounting Manual with enhanced approval and documentation processes which require written confirmation for non-cardholders to use a cardholder's credit card for specific purchases, along with evidence of Board approval.
15	Revised Accounting Manual incorporating transaction and account limits, documentation deadlines, and other requirements outlined in the LSC Financial Guide, along with evidence of Board approval.
16	Revised procedures for allocating attorneys' fees, including review of timekeeping records.
17	Revised written procedures for tracking sources of funds contributing to investment accounts and documenting the allocation basis of related income, along with evidence of Board approval.
18	Updated Accounting Manual and Fee Generating Cases Policies with consistent guidance on allocating attorneys' fees, along with evidence of Board approval.
19	Board approved inventory procedures requiring documentation of asset movements, timely tag replacement, and recording of discrepancies in both the inventory system and the general ledger.



Recommendation No.	Open Action Items and Required Documentation
	Evidence that damaged tags were replaced and decommissioned assets have been properly documented.
20	Revised inventory related policies and documentation supporting the processing of decommissioned assets, along with evidence of Board approval of those policies.
21	Revised policies for the inventory and disposal of IT and other sensitive equipment, along with evidence of Board approval.
22	Revised Accounting Manual requiring monthly preparation and review of complete budget-to-actual reports by funding source, and detailing revenue and expenses for each funding source.
23	Recent bank statements and reconciliations demonstrating resolution of outstanding checks and reconciling items, along with evidence that stale checks are actively investigated.
24	Revised policies for regular review of stale checks with clearly defined responsibilities and documentation requirements, along with evidence of Board approval of those policies.
25	Revised bank reconciliation policies and evidence of Board approval.
26	Documentation demonstrating the implementation of an escheatment process as part of the month-end closing procedures, including support for resolving client trust checks outstanding for more than six months.
27	Revised contracting policies, with evidence of Board approval, requiring supporting documentation for any sole-source contracts executed since the new verification steps were implemented.
28	Revised contracting policies requiring documented LSC approval for purchases over \$25,000 and evidence of Board approval.

The OIG disagrees with LAN's response to Recommendation 6. During our audit fieldwork, we observed that LAN commingled unrestricted funds with LSC General Operating funds in a single bank account. This practice prevented LAN from tracing expenses back to their specific funding sources, including LSC. Consequently, because LAN did not provide sufficient documentation to identify the funding sources in their general ledger, we were unable to verify whether LSC funds were utilized correctly.

Furthermore, LAN indicated in their response that the items recorded in the internal "No Grant" category were linked to unrestricted general operating funds and not associated with



LSC charges. They also stated that the transactions charged to LSC funds could be fully identified through the audited LSC Supplemental Schedule (Schedule). However, the transactions in the Schedule are grouped by line items, which do not allow for a clear identification of each transaction as it appears in the general ledger. The OIG maintains that the transactions remain unsupported, as it does not aid in identifying the funding sources in the general ledger. Additionally, LAN stated that they had not implemented an indirect cost allocation process during the audit period.

As mentioned above, the OIG will refer Recommendation 6, along with questioned costs totaling \$642,782, to LSC Management for further review and action as outlined below:

- Payroll: LAN incorrectly charged PTO totaling \$605,929, the equivalent of 19,932 hours, directly to LSC during the audit period.
- Disbursements: Four disbursements, totaling \$17,968, lacked funding allocations and were for unallowable purposes related to meals.
- Credit Cards: Forty-four transactions lacked required support for purchases totaling \$11,426. These expenses included hotel stays, airfare, food, office supplies, and promotional items.
- Derivative Income: Attorneys' fees totaling \$7,459 should have been allocated to LSC.



Figure 10: Recommendations Table Summary

Recommendations Referred to LSC Management	Recommendations Open	Recommendations Closed
6	1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, and 28	None
<p>LAN's comments on the recommendations are categorized as follows:</p> <ul style="list-style-type: none"> • Referred to LSC Management — The grantee does not agree to implement the recommendation; the recommendation will be referred to LSC Management for resolution. • Open — The grantee agreed to implement these recommendations or provide proposed actions that will address the underlying findings. • Closed — The OIG confirmed that the grantee's corrective actions were implemented. 		

Appendix I: Scope & Methodology

To achieve the audit objective, we identified, reviewed, evaluated, and assessed internal controls in the following areas:

- Cost Allocation
- Payroll
- Disbursements
- Credit Cards
- Derivative Income
- Property and Equipment
- Budgeting and Management Reporting
- General Ledger and Financial Controls
- Client Trust Funds
- Contracting
- LSC Disaster Grants
- Employee Benefits

We assessed internal controls in effect during the period from January 1, 2023, to March 31, 2025, to ensure that costs were adequately supported and allowed under the LSC Act of 1974, the LSC Financial Guide, and other applicable laws and regulations.

To select our samples for testing, we used a non-statistical sampling methodology. We determined this methodology was appropriate based on the audit period and objective. Our results cannot be projected to the audit universe, and we do not intend to make inferences about the populations from which we derived our samples.

Figure 11: Sampling Methodology of Areas Reviewed

Sampling Methodology	
<i>Cost Allocation</i>	<p>We evaluated LAN’s cost allocation methodology to assess whether it was reasonable and compliant with LSC guidelines and included adequate internal controls. We judgmentally selected one month of allocations to determine how the indirect allocations were performed. Additionally, we selected two personnel whose salaries were considered indirect, two personnel whose salaries were direct, two non-personnel indirect expenses, and two non-personnel direct expenses for review.</p>
<i>Payroll</i>	<p>We reviewed LAN’s policies and procedures over payroll and found they were generally consistent with LSC regulations. We conducted interviews and reviewed a sample of payroll registers, labor cost distribution reports, and paid time off (PTO) records. We verified that employee pay was consistent with authorization records and that payroll processes were supported by system documentation.</p> <p>We judgmentally selected payroll data from January and December of 2023 and 2024 for review. We also reviewed labor cost distribution reconciliations from January through March 2024, and PTO records related to LSC funding from January 1, 2023, through March 31, 2025. We evaluated user access settings in LAN’s payroll system as part of this review.</p>

Sampling Methodology

<i>Disbursements</i>	<p>To assess the appropriateness of expenditures and the existence of adequate supporting documentation, we reviewed disbursements made by LAN for transactions other than credit cards and payroll. We judgmentally selected a sample of 127 disbursements totaling \$1,026,478.</p> <p>The sample included high-dollar transactions, employee reimbursements, office-related expenses, and other routine disbursements. As part of our testing, we reviewed supporting documentation, including invoices and check requests, and traced transactions to the general ledger. We evaluated the expenditures for alignment with LAN’s internal policies, applicable regulations, and LSC requirements.</p>
<i>Credit Cards</i>	<p>We reviewed LAN’s written policies, procedures, and practices to determine if they had adequate controls over credit cards and are comparable to LSC regulations and guidelines.</p> <p>From a total of 11 credit card statements, we reviewed 148 transactions totaling \$93,344. Transactions were selected to provide coverage across vendors, expense types, and cardholders. The review was conducted to examine transaction details as part of routine credit card testing procedures, including the evaluation of supporting documentation and approvals.</p>

Sampling Methodology

<p><i>Derivative Income</i></p>	<p>We reviewed LAN’s policies and procedures over derivative income, discussed the recordation and allocation processes with management and key staff, and evaluated derivative income transactions.</p> <p>We did not select a sample of attorneys’ fees, but instead tested all fees received during the audit period. There were two attorneys’ fees totaling \$24,436.</p> <p>For interest and investment income, we judgmentally selected and reviewed the 2023 audited financial statements and asked for supporting documentation for the amounts disclosed. This included investment income of \$222,307 as well as LSC investment income of \$106.</p>
<p><i>Property and Equipment</i></p>	<p>We reviewed LAN’s policies and procedures for property and equipment. We interviewed staff involved in purchasing, tracking, and disposing of assets and reviewed LAN’s most recent inventory listings for capital assets and electronic devices. We assessed LAN’s compliance with the LSC Financial Guide and 45 C.F.R. § 1631, focusing on capitalization thresholds, inventory tracking, disposal procedures, and controls over equipment that may store sensitive information.</p> <p>We selected 29 items for testwork, including electronic devices and high-value equipment. Fourteen items were traced from physical location to inventory records, and 15 were vouched from inventory records to physical assets. Items were selected based on category, value, and potential risk of loss or misuse.</p>
<p><i>Budgeting and Management Reporting</i></p>	<p>We judgmentally selected a non-statistical sample of five months from which to review management reports. We also reviewed the 2024 budget that was prepared and approved during the period under review.</p>

Sampling Methodology

<p><i>General Ledger and Financial Controls</i></p>	<p>We reviewed LAN's written policies and procedures over general ledger management and financial controls to assess whether they aligned with LSC regulations and guidance. We conducted interviews with finance and compliance staff and reviewed processes within the accounting system. Excluding client trust accounts, which were reviewed separately, we judgmentally selected five months of bank reconciliations during the audit period to evaluate the timeliness and completeness of reconciliation procedures.</p>
<p><i>Client Trust Funds</i></p>	<p>We selected a judgmental, non-statistical sample of five months of bank statement reconciliations to determine if the accounts were properly reconciled for financial statement preparation. LAN prepared a total of seven reconciliations during those five months. From the reconciliations, we judgmentally selected four deposits and four disbursements for detailed testing. The deposits totaled \$1,977, and the disbursements totaled \$300.</p>
<p><i>Contracting</i></p>	<p>For our testing of LAN's contracting procedures, we judgmentally selected seven contracts with payments totaling \$1,890,928 over the audit period. The sample was selected based on contract value, service type, and assessed risk, and represented approximately 68% of the total contract payments during the period reviewed.</p>

Sampling Methodology	
<i>LSC Disaster Grants</i>	<p>We reviewed payroll transactions charged to LAN’s LSC Disaster Mentorship Grant to assess whether expenditures were consistent with the approved grant budget and staffing plan. We reviewed all 20 payroll transactions recorded during the grant period and judgmentally selected five for closer review. The sample included a mix of staff roles and activities, such as mentorship, outreach, and program coordination. We compared the selected transactions to budgeted positions and evaluated whether any staffing changes have been communicated to LSC as required.</p>
<i>Employee Benefits</i>	<p>We used a judgmental sampling methodology to review LAN’s employee benefits processes, including the onboarding and offboarding of employees and the management of user access rights within the payroll and benefits system.</p> <p>We selected a sample of two recently hired and two recently terminated employees between January 1, 2025, and March 31, 2025, to assess whether LAN’s onboarding and offboarding procedures align with LSC regulations and guidelines. We also reviewed all payroll system administrators to evaluate whether appropriate segregation of duties was in place.</p>

To understand the internal control framework and LAN’s processes over the areas mentioned above, we interviewed LAN management and staff, and we reviewed LAN’s written policies and procedures. These included accounting and personnel manuals, and additional board-approved policies setting forth current grantee practices.

To review and evaluate internal controls, we 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 objective. We also conducted testwork, which included inquiries, observation, and the examination of source documents to determine whether LAN’s internal control system and policies and procedures complied with the guidelines in LSC’s Financial Guide.



We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. We assessed the internal control components and underlying principles that we determined to be significant to the audit objective. However, because we limited our review 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, we considered the necessity of evaluating information systems controls. We determined that information system controls were significant to the audit objective. Therefore, we evaluated information system controls related to specific grantee operations, oversight, program expenditures, and fiscal accountability. Our internal control review included performing audit procedures related to information system controls to obtain sufficient, appropriate evidence to support and document our findings and conclusions on the implementation and effectiveness of LAN's internal controls. We determined that no additional audit procedures relating to information systems controls were needed.

Per government auditing standards, we assessed the reliability of LAN's computer-generated data. We reviewed selected system controls and supporting documentation and conducted interviews, logical tests, and testwork including tracing and vouching amounts to and from source documents. We found the data were reasonably complete, accurate and consistent. Therefore, we determined the data were sufficiently reliable for the purposes of this audit.

We also assessed significance and audit risk. We determined that internal controls in the select financial and operational areas mentioned above were significant to the audit objective. Audit risk is the possibility that audit findings, conclusions, recommendations, or assurance may be improper or incomplete because of factors such as insufficient or inappropriate evidence, the inadequacy of the audit process, or intentional omissions or misleading information due to misrepresentation or fraud. Based on our consideration of these factors, we determined the audit risk level to be low.

We conducted the audit fieldwork from April 14 to July 9, 2025. This included one week on-site in April and remote work for the rest of the period. We performed the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objective. We believe the



evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.



Appendix II: Assessment of Internal Control Components and Principles

Figure 12: Internal Control Principles Significant to the Audit Object

Internal Control Component		Principle	
Name	Overview	Number ¹¹	Description
<i>Control Environment</i>	The control environment is the foundation for an internal control system. It provides the discipline and structure, which affects the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.	1	Demonstrate Commitment to Integrity and Ethical Values
		2	The Oversight Body Should Oversee the Entity's Internal Control System
		3	Management Should Establish an Organizational Structure, Assign Responsibility, and Delegate Authority to Achieve the Entity's Objectives

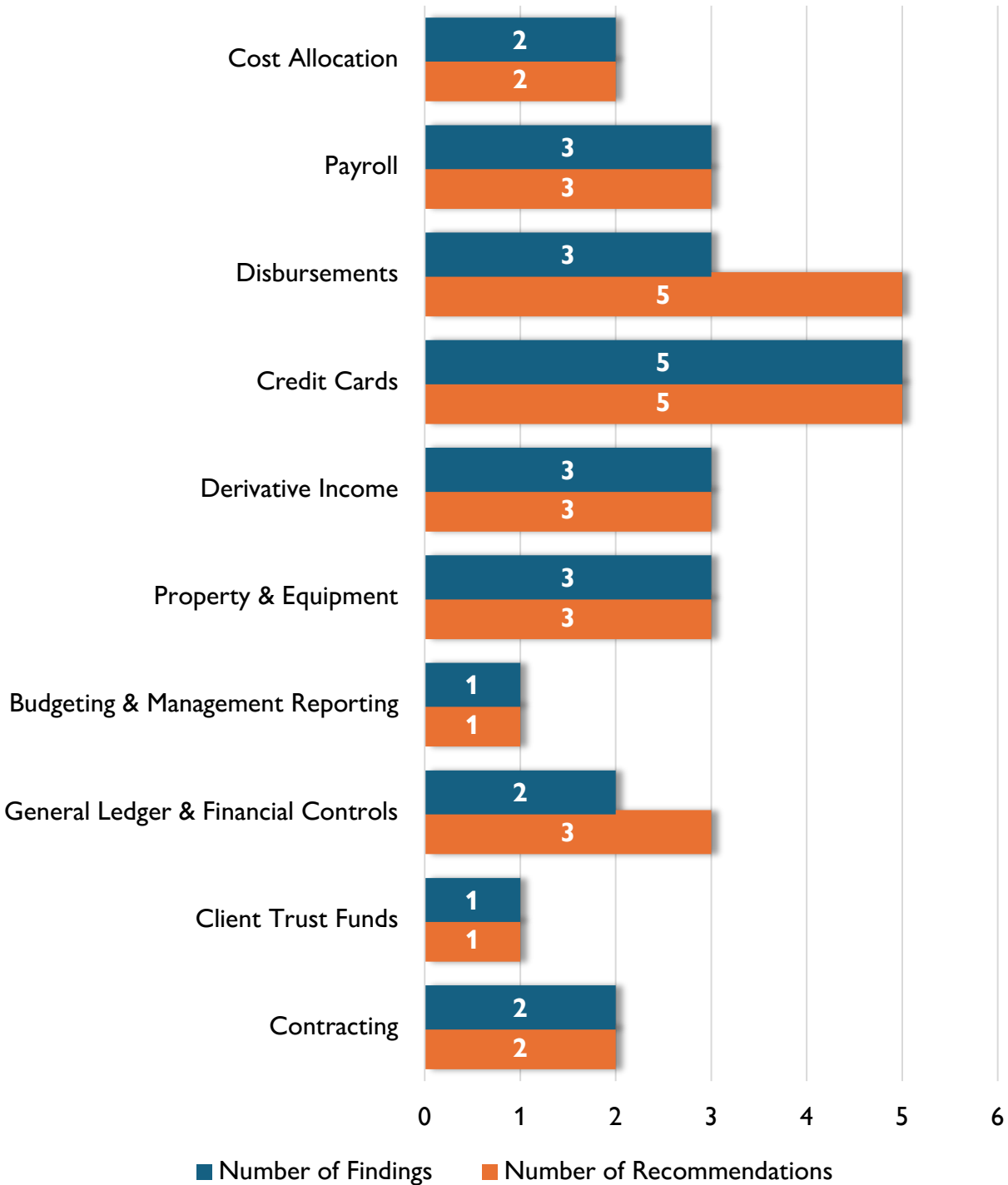
¹¹ The numbers correspond with the principles outlined in the [Standards for Internal Control in the Federal Government](#) (GAO-14-704G). While we considered principles 4-9, 16 and 17 during the audit, we determined that these principles were not significant to the audit objective.

Internal Control Component		Principle	
Name	Overview	Number	Description
<i>Control Activities</i>	Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.	10	Management Should Design Control Activities to Achieve Objectives and Respond to Risks
		11	Management Should Design the Entity's Information System and Related Control Activities to Achieve Objectives and Respond to Risks
		12	Management Should Implement Control Activities Through Policies

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

Appendix III: Summary of Findings & Recommendations

Figure 13: Total Count of Findings and Recommendations



Appendix IV: Grantee Management Comments





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December 2, 2025

Office of Inspector General
Legal Services Corporation
1825 I (Eye) St. NW, Suite 800
Washington, DC 20006

Dear Office of Inspector General,

This letter is in response to the draft audit report for Legal Aid of Nebraska dated October 29, 2025. Accompanying this letter is the recommendation tracking form which also includes the below comments on each of the recommendations.

Recommendation 1 - LAN agrees with the recommendation and has already begun implementing improvements to ensure that indirect costs are allocated to funding sources in a consistent and supportable manner. LAN is revising its indirect cost methodology and configuring its accounting system to support direct allocation across all funding sources. As part of this effort, LAN is enhancing documentation standards to ensure that allocation methods and system calculations are fully traceable and capable of supporting third party review.

LAN is also moving forward with implementing the draft allocation plan that was shared with and received favorable feedback from the OIG audit team during post fieldwork. This plan establishes a clear and supportable methodology for allocating indirect costs directly to funding sources. These improvements are underway and will continue through 2025 and into early 2026 as system enhancements are finalized.

Recommendation 2 - LAN agrees with the recommendation and is actively updating its written cost allocation policies to align with the revised methodology and system changes that are now underway. LAN is incorporating the draft allocation plan that was reviewed by the OIG audit team during post fieldwork. The updated policy will describe the allocation methodology, support requirements, roles, responsibilities, and system processes to ensure transparency and compliance with the LSC Financial Guide.

This work includes revising the Accounting Manual and establishing documentation standards that support third party review. LAN will finalize these written policies as the revised allocation methodology and system configuration are fully implemented.

Recommendation 3 - LAN agrees with the recommendation to enhance the compliance review process requiring verification of PTO coding before submission to their Finance Department and to retrain staff. LAN made significant improvements to its



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timekeeping and PTO allocation processes in 2024 and is now building upon those corrections to close the remaining minor gaps identified during the audit. LAN has strengthened timekeeping controls, retrained staff on proper PTO and category code entry, and established a more structured review process to verify coding accuracy before payroll information is provided to Finance. LAN is also reviewing 2025 year to date allocations to confirm accuracy and ensure all timekeeping data, including category codes, is complete. These efforts will further ensure that PTO is allocated proportionally and fully aligned with LSC requirements.

Recommendation 4 - LAN agrees with the recommendation regarding developing a detailed SOP for the wage allocation and reconciliation process. LAN implemented monthly payroll reconciliation procedures in early 2024 and is now formalizing these improvements into a comprehensive written standard operating procedure. The SOP will document the current allocation and reconciliation process, outline required supporting documentation, define roles and responsibilities, and establish clear timelines for completion and review.

Recommendation 5 - LAN agrees with the recommendation regarding administrative access to the payroll system. LAN agrees with the recommendation regarding administrative access to the payroll system. LAN will reduce administrative rights within the payroll system to essential personnel only and will implement appropriate controls within the payroll system to ensure that payroll staff cannot modify or approve their own pay. These refinements reinforce LAN's existing multi-level manual review process and ensure that system enforced controls operate consistently with LSC requirements.

Recommendation 6 - LAN respectfully disagrees with this recommendation. The transactions charged to LSC funds were fully identifiable through the audited LSC Supplemental Schedule. Because LAN had not yet implemented an indirect cost allocation process during the audit period, items recorded in the internal "no grant" category corresponded to unrestricted general operating funds and were not associated with LSC charges.

Furthermore, LAN's general ledger includes independent expense accounts that function as a secondary control to prevent ineligible or unallowable costs from being charged to LSC. These accounts are reviewed during month end and year end processes to ensure expenses such as meals, discretionary items, or other unallowable categories remain strictly within unrestricted funding. This review process provides additional assurance that LSC funds were not charged for unallowable costs.



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Direct charges to LSC funds are recorded at the grant code level within the general ledger, supported by itemized transaction detail, and validated through the annually audited Supplemental Schedule. While LAN agrees that the new indirect cost allocation methodology currently being implemented will strengthen grant coding and allocation clarity going forward, LAN maintains that the existing processes effectively prevented unassigned disbursements from being charged to LSC during the audit period.

LAN remains committed to enhancing its cost allocation framework as part of broader ongoing improvements.

Recommendation 7 - LAN agrees with the recommendation to ensure only allowable expenses are allocated to LSC. LAN maintains existing controls that ensure only allowable costs are charged to LSC, including the structure of its general ledger, which contains independent expense accounts used to segregate cost categories that are not eligible for LSC funding. These categories are reviewed as part of the monthly close process to confirm that unallowable or discretionary items remain entirely within unrestricted funding sources.

Direct charges to LSC are recorded at the grant level, supported by itemized general ledger detail, and validated annually through LAN's independently audited LSC Supplemental Schedule. These controls ensured that the unallowable expenses identified in the sample were not charged to LSC during the audit period.

As LAN implements its new indirect cost allocation methodology, additional review steps will be added to further strengthen this framework and maintain continued alignment with LSC requirements.

Recommendation 8 - LAN agrees with the recommendation to strengthen controls to ensure invoices are paid timely by routinely reviewing outstanding payables and prioritizing payment of those approaching, or past, their deadline.

Some delayed payments identified during the audit period were caused by vendor timing and temporary unavailability of internal approvers rather than gaps in internal controls. Even so, LAN has strengthened its accounts payable process by increasing

the frequency of outstanding payable reviews and improving communication with program managers and vendors to ensure timely submission and approval of invoices. LAN is also incorporating additional review steps into the monthly close process to prioritize invoices nearing their due dates and to enhance visibility for items requiring follow up.



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In addition, LAN will update the Accounting Manual to reflect its current accounts payable workflow, review expectations, and process improvements. This update will ensure written procedures match operational practice and reinforce consistency across the accounts payable function. These combined efforts will continue to support timely payments and maintain compliance with LSC guidance.

Recommendation 9 - LAN partially agrees with this recommendation. While LAN supports the underlying control objective of ensuring that invoices are not paid improperly or more than once, LAN no longer uses stamped “paid” markings as part of its accounts payable workflow. Instead, LAN relies on system-based payment records, multi-step approvals, and regular reconciliations that collectively provide effective safeguards against duplicate payments. These controls were in operation during the audit period and continue to mitigate the risks that manual stamping once addressed.

LAN will revise its Accounting Manual to reflect its current accounts payable process and to remove outdated references to invoice stamping. The updated manual will document the system supported and procedural controls that ensure all disbursements are appropriately reviewed and authorized. This approach aligns written policy with operational practice while maintaining strong internal controls and compliance with LSC guidance.

Recommendation 10 - LAN partially agrees with this recommendation. LAN supports the underlying objective of ensuring disbursements are properly reviewed and authorized. However, LAN no longer uses manual check request forms as part of its accounts payable workflow. Over time, LAN’s processes transitioned to system-based approvals, electronic documentation, and multi-level review procedures that provide effective safeguards against duplicate or improper payments.

LAN will update the Accounting Manual to remove outdated references to check request forms and to document the current workflow, including review and approval steps completed within the accounting system. LAN will share these updated procedures with its Board consistent with the governance expectations referenced in the recommendation, ensuring clarity between written policy and operational practice.

This approach ensures compliance with the intent of the recommendation while maintaining the more modern internal controls currently in place.

Recommendation 11 - LAN agrees with this recommendation to ensure all credit card charges have required documentation. LAN has strengthened credit card documentation controls by reinforcing expectations with cardholders, standardizing the required support for each transaction, and enhancing the monthly reconciliation



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procedures performed by Finance. LAN also notes that the questioned transactions identified in the sample were not charged to LSC funds. These transactions were not coded to the LSC grant within the general ledger, nor were they included in the audited Supplemental Schedule, which confirms the accuracy of direct charges to LSC.

LAN remains committed to ensuring that each credit card transaction includes complete supporting documentation, a clear business purpose, and evidence of compliance with LSC requirements. As LAN continues to strengthen its credit card governance, these improvements will help maintain complete and accurate documentation while confirming that only allowable and properly supported costs are charged to LSC funding.

Recommendation 12 - LAN partially agrees with this recommendation. LAN respectfully disagrees with the underlying assertion that funding sources could not be determined. LAN provided support showing that the credit card transactions coded as “No Grant/Unknown/Unassigned” were not charged to LSC. These charges were not coded to the LSC grant within the general ledger and were not included in the audited LSC Supplemental Schedule, which independently validates the accuracy of LSC allocations each year.

LAN agrees, however, that enhancements to documentation and grant coding are beneficial. As part of the broader improvements underway, LAN will incorporate additional controls into its credit card review and allocation processes to strengthen clarity and consistency in funding source assignment.

This approach ensures accuracy in the audit record while demonstrating LAN’s commitment to continuous improvement.

Recommendation 13 - LAN partially agrees with the recommendation. While LAN maintains spending limits for all cardholders, some temporary over limit transactions occurred during a credit card transition period or in connection with one-time purchases that required higher thresholds. These increases were intentional and approved operationally; however, LAN acknowledges that documentation of these temporary adjustments can be strengthened. LAN is reinforcing adherence to spending limits and is implementing a more formal approval and documentation process for any temporary increases. LAN will also update its Accounting Manual to reflect these strengthened procedures.

Recommendation 14 - LAN partially agrees with the recommendation. LAN does not permit uncontrolled use of credit cards by non-cardholders; however, certain purchases were made by staff with the permission of the authorized cardholder in order to support operational needs. LAN agrees that documentation of this permission can be



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strengthened. LAN is formalizing the process by requiring written confirmation from the cardholder whenever a non-cardholder completes a purchase and will update the Accounting Manual to reflect this procedure. These updates will enhance clarity, ensure consistent documentation, and reinforce compliance with LSC guidance.

Recommendation 15 - LAN agrees with the recommendation. LAN is currently updating its Accounting Manual to incorporate transaction and account limits, documentation deadlines, and other requirements outlined in the LSC Financial Guide. LAN has already strengthened internal credit card procedures operationally, and these updates will ensure that written policy fully reflects existing practices and provides clear expectations for all cardholders. Incorporating these elements will support consistent compliance and reinforce LAN's internal control framework.

Recommendation 16 - LAN agrees with the recommendation. LAN is strengthening the procedures used to review case timekeeping and to ensure that attorneys' fees are allocated in proportion to the support provided by LSC and other funding sources. LAN is implementing enhanced review steps in conjunction with the revised cost allocation methodology, including improved timekeeping verification, clearer coding expectations, and updated workflows between Compliance and Finance. These updates will support accurate allocation of attorneys' fees and align with LSC requirements.

Recommendation 17 - LAN agrees with the recommendation. LAN is strengthening its processes to ensure that investment and interest income allocations are fully documented, supported, and retained in accordance with LSC requirements. LAN is implementing improved procedures for tracking the sources of funds contributing to investment accounts and documenting the basis for allocation of related income. These updates will reinforce the accuracy of financial reporting and provide a clear audit trail for third party review.

Recommendation 18 - LAN agrees with the recommendation. LAN will evaluate both the Fee Generating Cases Policy and the Accounting Manual to identify necessary revisions that ensure consistent guidance regarding the allocation of attorneys' fees. LAN will ensure that both documents provide clear and consistent direction for staff.

Recommendation 19 - LAN agrees with this recommendation. LAN maintains an existing inventory process that includes tagging of equipment and periodic inventory reviews, and will build upon these procedures by enhancing documentation of asset movements, ensuring damaged or missing tags are replaced in a timely manner, and recording any discrepancies identified during physical inventory in both the inventory system and the general ledger.



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These refinements will support more accurate asset tracking, ensure that LAN's inventory records remain current, and align with LSC's requirements for physical inventory and asset management. LAN will incorporate these enhancements into its established inventory workflows, with oversight provided through Finance and Operations and Compliance to ensure appropriate review and monitoring.

Recommendation 20 - LAN agrees with this recommendation. LAN recognizes the importance of documenting the full lifecycle of assets purchased with LSC funds, including their decommissioning, disposal, or replacement. While LAN maintains an inventory process that tracks active equipment, LAN will enhance these procedures by developing formalized steps for documenting when assets are retired, ensuring that tags and inventory records are updated, and retaining supporting documentation for disposals or replacements.

These enhancements will provide a complete audit trail for assets purchased with LSC funds from initial acquisition through end of life and will ensure compliance with LSC requirements related to property disposition. Oversight will continue to be provided through Finance and Operations and Compliance to ensure consistency and accuracy in the management of all LSC funded assets.

Recommendation 21 - LAN agrees with the recommendation. LAN will revise its policies to include formal written procedures for the inventory and disposal of IT and other sensitive equipment. These procedures will include documentation of disposal method, date, approval, valuation if applicable, and confirmation that sensitive information has been properly removed prior to disposal. LAN will integrate these requirements into its existing asset management and oversight processes within Finance and Operations and Compliance.

Recommendation 22 - LAN agrees with this recommendation. LAN currently compiles funding source budget to actual information in a separate workbook, but recognizes that incorporating a complete funding source budget to actual report into the monthly reporting package will strengthen management oversight and compliance with LSC Financial Guide §2.6 and §1.3. LAN will ensure that these reports are prepared monthly and include both revenue and expenditure information for each funding source.

LAN will also revise its Accounting Manual to document the requirement for monthly preparation and review of funding source budget to actual reports. These improvements will enhance grant level financial monitoring, support internal decision making, and ensure continued alignment with LSC's reporting expectations.



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Recommendation 23 - LAN agrees with this recommendation. LAN's analysis determined that the majority of aged outstanding checks and reconciling items originated from a system transition rather than unreconciled financial activity. When LAN transitioned from Excel based bank reconciliations to the Cash Management module within the accounting system, the prior accountant did not mark certain previously cleared items as cleared in the new module. As a result, the system reflected a large aged outstanding list that did not represent actual outstanding transactions. After completing a detailed review, LAN determined that the true outstanding check list was approximately \$3k, with the remaining items consisting of legacy conversion entries that had cleared years prior.

LAN is resolving all outstanding checks older than six months in accordance with LSC policy and applicable state escheatment requirements. LAN is also completing a comprehensive cleanup of prior period items to ensure unresolved balances are appropriately investigated, documented, and cleared, including both outstanding payments and deposit adjustments.

To prevent recurrence, LAN is incorporating a specific review of aged reconciling items as part of its standard monthly bank reconciliation procedures and will document this requirement in its internal processes. These improvements will ensure that reconciling items are addressed timely and that bank reconciliations remain accurate and fully supported.

Recommendation 24 - LAN agrees with the recommendation. LAN performs monthly bank reconciliations; however, LAN will update its Accounting Manual to include more detailed requirements regarding stale check review, reconciliation timelines, preparer and reviewer responsibilities, voiding procedures, required documentation, and retention standards. These updates will strengthen clarity, consistency, and alignment with LSC Financial Guide §3.2.1(c). LAN will also incorporate oversight through Finance and Operations and Compliance to ensure ongoing adherence to these enhanced procedures.

Recommendation 25 - LAN agrees with the recommendation. LAN will revise its bank reconciliation policy to include a defined timeline for completing reconciliations after month end, require preparers and reviewers to sign and date reconciliations, and incorporate clear procedures for voiding checks, including physical retention, documentation of the reason for voiding, and appropriate accounting treatment. These updates will strengthen clarity, consistency, and alignment with LSC Financial Guide §3.2.1(c).



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Recommendation 26 - LAN agrees with the recommendation. LAN's review determined that outstanding client trust checks over six months were primarily legacy items previously overseen by the former Senior Accountant. LAN has since implemented an escheatment process as part of its month end close procedures to ensure compliance with LSC requirements and applicable state escheatment laws. LAN will continue to investigate, resolve, and properly address any stale client trust checks as required.

Recommendation 27 - LAN agrees with the recommendation. LAN will implement a verification step to ensure all required approvals for sole source contracts are obtained and documented before execution, and will formalize email approvals through signatures or verified electronic authorization. LAN will also revise its Accounting Manual to explicitly include the LSC requirement for prior written approval before expending more than twenty five thousand dollars in LSC funds on contracts, purchases, or capital improvements. These updates will strengthen clarity and consistency in the procurement process and ensure alignment with 45 C.F.R. §1630.6(b) and LSC Financial Guide requirements.

Recommendation 28 - LAN agrees with the recommendation. LAN will revise its Accounting Manual to explicitly require prior written approval from LSC before expending more than twenty five thousand dollars of LSC funds on applicable contracts or purchases. The updated policy will reference 45 C.F.R. §§1630.6 and 1631 and will require that evidence of LSC approval be retained in the procurement file. These revisions will strengthen clarity and ensure full alignment with LSC prior approval requirements.

As can be seen, Legal Aid of Nebraska has already taken action on many of the audit recommendations and will continue that work in the coming months. We are committed to implementing these actions to better align our processes with LSC's requirements. We appreciate the support received from LSC staff throughout the audit and as we developed the action plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Laurie Heer-Dale", written in a cursive style.

Laurie Heer-Dale
Executive Director
Legal Aid of Nebraska



Recommendation Tracking

Grantee Name:

RNO:

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

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

Recommendations	Response	Comments
Recommendation 1	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation and has already begun implementing improvements to ensure that indirect costs are allocated to funding sources in a consistent and supportable manner. LAN is revising its indirect cost methodology and configuring its accounting system to support direct allocation across all funding sources. As part of this effort, LAN is enhancing documentation standards to ensure that allocation methods and system calculations are fully traceable and capable of supporting third party review.

Recommendations	Response	Comments
		LAN is also moving forward with implementing the draft allocation plan that was shared with and received favorable feedback from the OIG audit team during post fieldwork. This plan establishes a clear and supportable methodology for allocating indirect costs directly to funding sources. These improvements are underway and will continue through 2025 and into early 2026 as system enhancements are finalized.
Recommendation 2	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN agrees with the recommendation and is actively updating its written cost allocation policies to align with the revised methodology and system changes that are now underway. LAN is incorporating the draft allocation plan that was reviewed by the OIG audit team during post fieldwork. The updated policy will describe the allocation methodology, support requirements, roles, responsibilities, and system processes to ensure transparency and compliance with the LSC Financial Guide.</p> <p>This work includes revising the Accounting Manual and establishing documentation standards that support third party review. LAN will finalize these written policies as the revised allocation methodology and system configuration are fully implemented.</p>
Recommendation 3	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation to enhance the compliance review process requiring verification of PTO coding before submission to their Finance Department and to retrain staff. LAN made significant improvements to its timekeeping and PTO allocation processes in 2024 and is now building upon those corrections to close the remaining minor gaps identified during the audit. LAN has strengthened timekeeping controls, retrained staff on proper PTO and category code entry, and established a more structured review process to verify coding accuracy before payroll information is provided to Finance. LAN is also reviewing 2025 year to date allocations to confirm accuracy and ensure all timekeeping data, including category codes, is complete. These efforts will further ensure that PTO is allocated proportionally and fully aligned with LSC requirements.
Recommendation 4	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/>	LAN agrees with the recommendation regarding developing a detailed SOP for the wage allocation and reconciliation

Recommendations	Response	Comments
	Disagree <input type="checkbox"/>	process. LAN implemented monthly payroll reconciliation procedures in early 2024 and is now formalizing these improvements into a comprehensive written standard operating procedure. The SOP will document the current allocation and reconciliation process, outline required supporting documentation, define roles and responsibilities, and establish clear timelines for completion and review.
Recommendation 5	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation regarding administrative access to the payroll system. LAN agrees with the recommendation regarding administrative access to the payroll system. LAN will reduce administrative rights within the payroll system to essential personnel only and will implement appropriate controls within the payroll system to ensure that payroll staff cannot modify or approve their own pay. These refinements reinforce LAN’s existing multi-level manual review process and ensure that system enforced controls operate consistently with LSC requirements.
Recommendation 6	Agree <input type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input checked="" type="checkbox"/>	<p>LAN respectfully disagrees with this recommendation. The transactions charged to LSC funds were fully identifiable through the audited LSC Supplemental Schedule. Because LAN had not yet implemented an indirect cost allocation process during the audit period, items recorded in the internal “no grant” category corresponded to unrestricted general operating funds and were not associated with LSC charges.</p> <p>Furthermore, LAN’s general ledger includes independent expense accounts that function as a secondary control to prevent ineligible or unallowable costs from being charged to LSC. These accounts are reviewed during month end and year end processes to ensure expenses such as meals,</p>

Recommendations	Response	Comments
		<p>discretionary items, or other unallowable categories remain strictly within unrestricted funding. This review process provides additional assurance that LSC funds were not charged for unallowable costs.</p> <p>Direct charges to LSC funds are recorded at the grant code level within the general ledger, supported by itemized transaction detail, and validated through the annually audited Supplemental Schedule. While LAN agrees that the new indirect cost allocation methodology currently being implemented will strengthen grant coding and allocation clarity going forward, LAN maintains that the existing processes effectively prevented unassigned disbursements from being charged to LSC during the audit period.</p> <p>LAN remains committed to enhancing its cost allocation framework as part of broader ongoing improvements.</p>
Recommendation 7	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN agrees with the recommendation to ensure only allowable expenses are allocated to LSC. LAN maintains existing controls that ensure only allowable costs are charged to LSC, including the structure of its general ledger, which contains independent expense accounts used to segregate cost categories that are not eligible for LSC funding. These categories are reviewed as part of the monthly close process to confirm that unallowable or discretionary items remain entirely within unrestricted funding sources.</p> <p>Direct charges to LSC are recorded at the grant level, supported by itemized general ledger detail, and validated annually through LAN's independently audited LSC Supplemental Schedule. These controls ensured that the</p>

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		<p>unallowable expenses identified in the sample were not charged to LSC during the audit period.</p> <p>As LAN implements its new indirect cost allocation methodology, additional review steps will be added to further strengthen this framework and maintain continued alignment with LSC requirements.</p>
Recommendation 8	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN agrees with the recommendation to strengthen controls to ensure invoices are paid timely by routinely reviewing outstanding payables and prioritizing payment of those approaching, or past, their deadline.</p> <p>Some delayed payments identified during the audit period were caused by vendor timing and temporary unavailability of internal approvers rather than gaps in internal controls. Even so, LAN has strengthened its accounts payable process by increasing the frequency of outstanding payable reviews and improving communication with program managers and vendors to ensure timely submission and approval of invoices. LAN is also incorporating additional review steps into the monthly close process to prioritize invoices nearing their due dates and to enhance visibility for items requiring follow up.</p> <p>In addition, LAN will update the Accounting Manual to reflect its current accounts payable workflow, review expectations, and process improvements. This update will ensure written procedures match operational practice and reinforce consistency across the accounts payable function. These combined efforts will continue to support timely payments and maintain compliance with LSC guidance.</p>
Recommendation 9	Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN partially agrees with this recommendation. While LAN supports the underlying control objective of ensuring that invoices are not paid improperly or more than once, LAN no</p>

Recommendations	Response	Comments
		<p>longer uses stamped “paid” markings as part of its accounts payable workflow. Instead, LAN relies on system based payment records, multi step approvals, and regular reconciliations that collectively provide effective safeguards against duplicate payments. These controls were in operation during the audit period and continue to mitigate the risks that manual stamping once addressed.</p> <p>LAN will revise its Accounting Manual to reflect its current accounts payable process and to remove outdated references to invoice stamping. The updated manual will document the system supported and procedural controls that ensure all disbursements are appropriately reviewed and authorized. This approach aligns written policy with operational practice while maintaining strong internal controls and compliance with LSC guidance.</p>
Recommendation 10	Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN partially agrees with this recommendation. LAN supports the underlying objective of ensuring disbursements are properly reviewed and authorized. However, LAN no longer uses manual check request forms as part of its accounts payable workflow. Over time, LAN’s processes transitioned to system based approvals, electronic documentation, and multi level review procedures that provide effective safeguards against duplicate or improper payments.</p> <p>LAN will update the Accounting Manual to remove outdated references to check request forms and to document the current workflow, including review and approval steps completed within the accounting system. LAN will share these updated procedures with its Board consistent with the governance expectations referenced in the recommendation,</p>

Recommendations	Response	Comments
		<p>ensuring clarity between written policy and operational practice.</p> <p>This approach ensures compliance with the intent of the recommendation while maintaining the more modern internal controls currently in place.</p>
Recommendation 11	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN agrees with this recommendation to ensure all credit card charges have required documentation. LAN has strengthened credit card documentation controls by reinforcing expectations with cardholders, standardizing the required support for each transaction, and enhancing the monthly reconciliation procedures performed by Finance. LAN also notes that the questioned transactions identified in the sample were not charged to LSC funds. These transactions were not coded to the LSC grant within the general ledger, nor were they included in the audited Supplemental Schedule, which confirms the accuracy of direct charges to LSC.</p> <p>LAN remains committed to ensuring that each credit card transaction includes complete supporting documentation, a clear business purpose, and evidence of compliance with LSC requirements. As LAN continues to strengthen its credit card governance, these improvements will help maintain complete and accurate documentation while confirming that only allowable and properly supported costs are charged to LSC funding.</p>
Recommendation 12	Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN partially agrees with this recommendation. LAN respectfully disagrees with the underlying assertion that funding sources could not be determined. LAN provided support showing that the credit card transactions coded as “No Grant/Unknown/Unassigned” were not charged to LSC. These charges were not coded to the LSC grant within the general ledger and were not included in the audited LSC Supplemental Schedule, which independently validates the accuracy of LSC allocations each year.</p> <p>LAN agrees, however, that enhancements to documentation and grant coding are beneficial. As part of the broader</p>

Recommendations	Response	Comments
		<p>improvements underway, LAN will incorporate additional controls into its credit card review and allocation processes to strengthen clarity and consistency in funding source assignment.</p> <p>This approach ensures accuracy in the audit record while demonstrating LAN's commitment to continuous improvement.</p>
Recommendation 13	Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN partially agrees with the recommendation. While LAN maintains spending limits for all cardholders, some temporary over limit transactions occurred during a credit card transition period or in connection with one time purchases that required higher thresholds. These increases were intentional and approved operationally; however, LAN acknowledges that documentation of these temporary adjustments can be strengthened. LAN is reinforcing adherence to spending limits and is implementing a more formal approval and documentation process for any temporary increases. LAN will also update its Accounting Manual to reflect these strengthened procedures.</p>
Recommendation 14	Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN partially agrees with the recommendation. LAN does not permit uncontrolled use of credit cards by non cardholders; however, certain purchases were made by staff with the permission of the authorized cardholder in order to support operational needs. LAN agrees that documentation of this permission can be strengthened. LAN is formalizing the process by requiring written confirmation from the cardholder whenever a non cardholder completes a purchase and will update the Accounting Manual to reflect this procedure. These updates will enhance clarity, ensure consistent documentation, and reinforce compliance with LSC guidance.</p>
Recommendation 15	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN agrees with the recommendation. LAN is currently updating its Accounting Manual to incorporate transaction and account limits, documentation deadlines, and other requirements outlined in the LSC Financial Guide. LAN has already strengthened internal credit card procedures operationally, and these updates will ensure that written policy fully reflects existing practices and provides clear expectations for all cardholders. Incorporating these elements will support</p>

Recommendations	Response	Comments
		consistent compliance and reinforce LAN's internal control framework.
Recommendation 16	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN is strengthening the procedures used to review case timekeeping and to ensure that attorneys' fees are allocated in proportion to the support provided by LSC and other funding sources. LAN is implementing enhanced review steps in conjunction with the revised cost allocation methodology, including improved timekeeping verification, clearer coding expectations, and updated workflows between Compliance and Finance. These updates will support accurate allocation of attorneys' fees and align with LSC requirements.
Recommendation 17	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN is strengthening its processes to ensure that investment and interest income allocations are fully documented, supported, and retained in accordance with LSC requirements. LAN is implementing improved procedures for tracking the sources of funds contributing to investment accounts and documenting the basis for allocation of related income. These updates will reinforce the accuracy of financial reporting and provide a clear audit trail for third party review.
Recommendation 18	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN will evaluate both the Fee Generating Cases Policy and the Accounting Manual to identify necessary revisions that ensure consistent guidance regarding the allocation of attorneys' fees. LAN will ensure that both documents provide clear and consistent direction for staff.
Recommendation 19	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN agrees with this recommendation. LAN maintains an existing inventory process that includes tagging of equipment and periodic inventory reviews, and will build upon these procedures by enhancing documentation of asset movements, ensuring damaged or missing tags are replaced in a timely manner, and recording any discrepancies identified during physical inventory in both the inventory system and the general ledger.</p> <p>These refinements will support more accurate asset tracking, ensure that LAN's inventory records remain current, and align with LSC's requirements for physical inventory and asset management. LAN will incorporate these enhancements into</p>

Recommendations	Response	Comments
		its established inventory workflows, with oversight provided through Finance and Operations and Compliance to ensure appropriate review and monitoring.
Recommendation 20	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN agrees with this recommendation. LAN recognizes the importance of documenting the full lifecycle of assets purchased with LSC funds, including their decommissioning, disposal, or replacement. While LAN maintains an inventory process that tracks active equipment, LAN will enhance these procedures by developing formalized steps for documenting when assets are retired, ensuring that tags and inventory records are updated, and retaining supporting documentation for disposals or replacements.</p> <p>These enhancements will provide a complete audit trail for assets purchased with LSC funds from initial acquisition through end of life and will ensure compliance with LSC requirements related to property disposition. Oversight will continue to be provided through Finance and Operations and Compliance to ensure consistency and accuracy in the management of all LSC funded assets.</p>
Recommendation 21	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN will revise its policies to include formal written procedures for the inventory and disposal of IT and other sensitive equipment. These procedures will include documentation of disposal method, date, approval, valuation if applicable, and confirmation that sensitive information has been properly removed prior to disposal. LAN will integrate these requirements into its existing asset management and oversight processes within Finance and Operations and Compliance.
Recommendation 22	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with this recommendation. LAN currently compiles funding source budget to actual information in a separate workbook, but recognizes that incorporating a complete funding source budget to actual report into the monthly reporting package will strengthen management oversight and compliance with LSC Financial Guide §2.6 and §1.3. LAN will ensure that these reports are prepared monthly and include both revenue and expenditure information for each funding source.

Recommendations	Response	Comments
		LAN will also revise its Accounting Manual to document the requirement for monthly preparation and review of funding source budget to actual reports. These improvements will enhance grant level financial monitoring, support internal decision making, and ensure continued alignment with LSC's reporting expectations.
Recommendation 23	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	<p>LAN agrees with this recommendation. LAN's analysis determined that the majority of aged outstanding checks and reconciling items originated from a system transition rather than unreconciled financial activity. When LAN transitioned from Excel based bank reconciliations to the Cash Management module within the accounting system, the prior accountant did not mark certain previously cleared items as cleared in the new module. As a result, the system reflected a large aged outstanding list that did not represent actual outstanding transactions. After completing a detailed review, LAN determined that the true outstanding check list was approximately \$3k, with the remaining items consisting of legacy conversion entries that had cleared years prior.</p> <p>LAN is resolving all outstanding checks older than six months in accordance with LSC policy and applicable state escheatment requirements. LAN is also completing a comprehensive cleanup of prior period items to ensure unresolved balances are appropriately investigated, documented, and cleared, including both outstanding payments and deposit adjustments.</p> <p>To prevent recurrence, LAN is incorporating a specific review of aged reconciling items as part of its standard monthly bank reconciliation procedures and will document this requirement in its internal processes. These improvements will ensure that reconciling items are addressed timely and that bank reconciliations remain accurate and fully supported.</p>
Recommendation 24	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN performs monthly bank reconciliations; however, LAN will update its Accounting Manual to include more detailed requirements regarding stale check review, reconciliation timelines, preparer and reviewer responsibilities, voiding procedures, required documentation, and retention standards. These updates will strengthen clarity,

Recommendations	Response	Comments
		consistency, and alignment with LSC Financial Guide §3.2.1(c). LAN will also incorporate oversight through Finance and Operations and Compliance to ensure ongoing adherence to these enhanced procedures.
Recommendation 25	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN will revise its bank reconciliation policy to include a defined timeline for completing reconciliations after month end, require preparers and reviewers to sign and date reconciliations, and incorporate clear procedures for voiding checks, including physical retention, documentation of the reason for voiding, and appropriate accounting treatment. These updates will strengthen clarity, consistency, and alignment with LSC Financial Guide §3.2.1(c).
Recommendation 26	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN's review determined that outstanding client trust checks over six months were primarily legacy items previously overseen by the former Senior Accountant. LAN has since implemented an escheatment process as part of its month end close procedures to ensure compliance with LSC requirements and applicable state escheatment laws. LAN will continue to investigate, resolve, and properly address any stale client trust checks as required.
Recommendation 27	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN will implement a verification step to ensure all required approvals for sole source contracts are obtained and documented before execution, and will formalize email approvals through signatures or verified electronic authorization. LAN will also revise its Accounting Manual to explicitly include the LSC requirement for prior written approval before expending more than twenty five thousand dollars in LSC funds on contracts, purchases, or capital improvements. These updates will strengthen clarity and consistency in the procurement process and ensure alignment with 45 C.F.R. §1630.6(b) and LSC Financial Guide requirements.
Recommendation 28	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	LAN agrees with the recommendation. LAN will revise its Accounting Manual to explicitly require prior written approval from LSC before expending more than twenty five thousand dollars of LSC funds on applicable contracts or purchases. The updated policy will reference 45 C.F.R. §§1630.6 and 1631 and will require that evidence of LSC approval be

Recommendations	Response	Comments
		retained in the procurement file. These revisions will strengthen clarity and ensure full alignment with LSC prior approval requirements.

Name and Title Laurie Heer Dale
Executive Director

Signature 

Abbreviations, Acronyms, and Glossary

Abbreviations & Acronyms	
<i>CFR</i>	Code of Federal Regulations
<i>COC</i>	Chief of Compliance
<i>FTE</i>	Full Time Equivalent (see Glossary below)
<i>LAN</i>	Legal Aid of Nebraska
<i>LSC</i>	Legal Services Corporation
<i>OIG</i>	Office of Inspector General
<i>PTO</i>	Paid Time Off

Glossary	
<i>Budgeted FTEs (Full-Time Equivalents)</i>	The number of full-time positions an organization plans and allocates funding for in its budget. One FTE typically equals one full-time worker's hours over a set period (e.g., 40 hours per week). Part-time roles are combined to represent a proportion of an FTE.
<i>Category Codes</i>	Identifiers used in LAN's timekeeping system to classify hours worked by type to help ensure accurate tracking and labor costs allocations.

Glossary

<i>Client Trust Account</i>	A separate bank account used to hold funds on behalf of clients, typically for pending legal matters, ensuring the money is kept distinct from the organization’s own operating funds.
<i>Derivative Income</i>	Income received as a result of the use of LSC funds such as interest income, rent, portion of reimbursement or recovery of direct payments to attorneys and proceeds from the sale of assets.
<i>Disbursements</i>	Payments by cash, check, or electronically to vendors including employee travel and other reimbursements.
<i>Funding Source Budget-to-Actual Report</i>	A report comparing the planned (budgeted) and actual spending of funds from a specific source, used to track financial performance and ensure proper use of funds.
<i>Indirect Cost Allocation</i>	The method of distributing overhead costs, such as administration, facilities, or IT, that support multiple programs, across those programs based on a consistent and justifiable formula.
<i>Sole-Source Contracts</i>	Contracts awarded without competition when the grantee determines that only one vendor can reasonably meet the requirements, due to specialized expertise or an urgent need.