Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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September 27, 2016

Mr. Raymond Hartz
Executive Director
Legal Aid Society of Eastern Virginia
125 St Paul's Blvd., Suite 400
Norfolk, VA 23510

Dear Mr. Hartz:

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

Please be advised that we have correctly renumbered the recommendations in the final report. In the issued draft report, Recommendations 17 through 25 were incorrectly numbered. We are addressing them in the response under the corrected numbers in the final report.

The proposed actions to address Recommendations 1, 5, 6, 7, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, and 25 are responsive. The actions planned by grantee management to address the issues and revise and update its Accounting Manual should correct the issues identified in the report. However, all 17 recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation provided.

The OIG considers Recommendation 9 closed as grantee management has clarified their involvement with the Loan Reimbursement Assistance Program.

The grantee partially responded to Recommendations 4, 10, 13 and 24, and disagreed with Recommendations 2, 3, and 8.

The OIG is referring Recommendation 2, 3, 4, 8, 10, 13 and 24 to LSC management for resolution.

Please provide us with your response to close out the agreed upon 17 open recommendations along with the revised Accounting Manual within six months of the date of this final report.

LSC
America's Partner For Equal Justice

We thank you and your staff for your cooperation and look forward to receiving your submission by March of 2017.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings,
Vice President for Grants Management

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LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

FINAL REPORT ON SELECTED INTERNAL CONTROLS

LEGAL AID SOCIETY OF EASTERN VIRGINIA, INC.

RNO 447026

Report No. AU 16-09

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www.oig.lsc.gov

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INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Legal Aid Society of Eastern Virginia (LASEV or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Norfolk, VA and at LSC headquarters in Washington, DC.

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

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

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

BACKGROUND

The Legal Aid Society of Eastern Virginia (LASEV) is a nonprofit corporation organized for the purpose of providing legal assistance to individuals in the eastern region of the state of Virginia who are financially unable to afford help with noncriminal proceedings or other legal matters. LASEV serves the cities of Norfolk, Virginia Beach, Portsmouth, Chesapeake, Newport News, Hampton, Williamsburg, Poquoson and seven counties including: James City, York, Accomack, Northampton, Gloucester, Matthews, and Middlesex. The grantee operates three offices in Tidewater, Peninsula and Chesapeake Bay.

According to the grantee's audited financial statements for the fiscal year ended June 30, 2015, approximately 35 percent of the grantee's total support funding was provided by LSC in the amount of $1,133,915. Additional funding includes $1,718,781 from the Legal Services Corporation of Virginia; $13,913 from the United Way; $6,800 from the Peninsula Agency on Aging; $287,360 from Navigator Grants; $6,900 from Senior Services Grant; and $36,417 from other grants.

OBJECTIVE

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

OVERALL EVALUATION

The OIG's review found a number of significant issues with the design and operation of some of the internal controls reviewed at LASEV.

- The attorneys' fees allocation methodology does not comply with LSC Regulation 45 CFR Part 1609. In addition, for interest income, the grantee did not maintain records to corroborate the source of income.

- The cost allocation system, as documented and implemented, was not in accordance with LSC Regulation 45 CFR Part 1630 as the indirect costs are not divided by an equitable distribution base and distributed to individual grant awards accordingly. The grantee only allocates LSC funds to personnel and PAI expenses. In addition, the methodology does not provide an audit trail to perform testing of the grantee's described distribution of expenditures, as required by the *Fundamental Criteria of an Accounting and Financial Reporting System* (*Fundamental Criteria*) contained in the LSC Accounting Guide.

- The OIG tested 88 disbursements totaling $115,102, expensed between January 2015 and December 2015. Of the disbursements tested, 30 disbursements (9.7 percent) totaling approximately $11,197 were inadequately supported, inadequately approved or lacked board oversight. In addition, our review of controls over employee benefits relating to tuition and text book reimbursements noted some inadequacies.

- The grantee's accounting system is not designed to provide separate and distinct receipts and disbursements of LSC and non-LSC funds and, as such, does not comply with LSC Regulation 45 CFR § 1610.9.

- Duties were not properly segregated in the area of vendor list maintenance.

- Management reports do not sufficiently provide funding source detail. Additionally, the total costs of the activities do not represent the funding allocation.

- The grantee does not have adequately trained personnel performing its accounting duties. Temporary staff has been hired to perform limited accounting duties while the grantee is in the process of hiring permanent staff.

- Controls related to outstanding checks and review of bank reconciliation journal entries need to be strengthened.

- The grantee needs to strengthen controls over physical inventory and the tagging of fixed assets.

- Written policies were not documented in some of the areas reviewed, including: derivative income, contracting, disbursements, management reporting, budgeting and employee benefits that are financially related (e.g., student loans, tuition and text book reimbursements). In other areas such as cost allocation, fixed assets and client trust funds, written policies were not in accordance with the *Fundamental Criteria* contained in the LSC Accounting Guide. For general and financial controls, the grantee's Accounting Manual did not outline how the accounting system provides for separate and distinct receipts and disbursements of LSC and non-LSC funds; and also did not include policies for the process of resolving outstanding checks.

AUDIT FINDINGS

To accomplish the audit objective, the OIG reviewed and tested select internal fixed assets and general ledger and financial controls. In addition, controls over cost allocation, management reporting and budgeting, and client trust funds were also reviewed. The following areas need improvement.

DERIVATIVE INCOME

The LSC OIG examined LASEV's derivative income, consisting of attorneys' fees and interest income. It was determined that during the audit period the grantee did not have written policies for either of these areas. The OIG found that practices in place related to allocating and recording interest income were adequate; however, the recording of attorneys' fees does not fully comply with LSC Regulation 45 CFR § 1609.4.

Policy

In our review of LASEV's derivative income policies and procedures, the OIG noted that the grantee's Accounting Manual does not have written policies or procedures for derivative income, including attorneys' fees and interest income.

The *Fundamental Criteria* contained in the LSC Accounting Guide provides that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria.*

The Executive Director stated that policies for derivative income were not included in the grantee's Accounting Manual due to a management oversight. Failure to have written policies and procedures may result in incorrect allocation of derivative income, including related attorneys' fees and interest income.

Attorneys' Fees

The attorneys' fees allocation methodology does not comply with LSC Regulation 45 CFR Part 1609. During the period under review, the grantee received a total of $187 in court awarded attorneys' fees. The Executive Director explained that attorneys' fees received are recorded in a general fund and allocated to the funding sources at the end of the fiscal year based on the proportion of total personnel expenses expended to each funding source.

Moreover, the grantee does not have practices in place to allocate costs associated with individual cases to funding sources. Therefore, the OIG could not determine the extent of LSC funding expended towards the cases that received court awarded attorneys' fees.

The OIG found that the attorneys' fees allocation methodology as described by the grantee was not in place. Our review of the grantee's accounting records and the audited Financial Statements for the fiscal year ended June 30, 2015, did not present any attorneys' fees attributed to LSC.

LSC Regulation 45 CFR §1609.4 provides:

> (a) Attorneys' fees received by a recipient for representation supported in whole or in part with funds provided by the Corporation shall be allocated to the fund in which the recipient's LSC grant is recorded in the same proportion that the amount of Corporation funds expended bears to the total amount expended by the recipient to support the representation.

The Executive Director explained that an overwhelming majority of the cases handled by the grantee meet LSC eligibility criteria; therefore, he finds tracking of individual cases by the funding sources in order to allocate attorneys' fees to be a burdensome administrative task.

Properly recording attorneys' fees in accordance with LSC regulations allows LSC to be allocated its apportioned share which, in turn, can be used to provide legal services in accordance with LSC requirements.

Interest Income

The OIG reviewed LASEV's interest income allocation methodology and found that the allocation of interest income was not fully supported. The grantee did not maintain contemporaneous records of sources of income accumulated in the bank accounts on which the interest was earned. During the period under review, the grantee earned a total of $1,630 in interest income primarily on the cash and investments balances in their bank accounts. The grantee allocates interest income annually to different funding sources at their fiscal year end June 30.

Our review of the grantee's audited Financial Statements for the fiscal year ended June 30, 2015 noted that interest income earned totaled $1,689. Of this amount, $145 or approximately 8.6 percent was allocated to LSC.

The grantee did not maintain contemporaneous records to show the source of funds that make up the cash and investments account balances, and whether they were LSC and/or non-LSC funds. Therefore, the OIG could not verify whether the interest income allocated to LSC was sufficient or understated.

LSC Regulation 45 CFR §1630.12(a) states:

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

The Executive Director explained that he used to maintain a worksheet detailing the various funding levels that made up the fund balance. Management does not find it necessary to currently maintain a similar worksheet.

Failure to maintain adequate financial records may result in an unfair allocation of the total amount of interest income credited back to the appropriate funding sources.

Recommendations: The Executive Director should ensure that:

Recommendation 1: the grantee develops and implements a written derivative income policy that covers all types of derivative income, including provisions for attorneys' fees contained in 45 CFR § 1609.4.

Recommendation 2: attorneys' fees are allocated in accordance with the requirements specified in 45 CFR § 1609.4.

Recommendation 3: interest income is allocated in accordance with the requirements specified in 45 CFR § 1630.12.

Recommendation 4: the grantee maintains adequate financial records to support allocation of interest income among the various funding sources.

COST ALLOCATION

The OIG examined the grantee's Accounting Manual and practices and noted that the documented policies and the grantee's practice, related to cost allocation, were not in accordance with LSC regulations. In addition, the grantee's accounting system does not provide an audit trail to perform testing of the grantee described distribution of expenditures.

Methodology

The cost allocation system, as documented and implemented, was not in accordance with LSC Regulation 45 CFR Part 1630 as the indirect costs are not divided by an equitable distribution base and distributed to individual grant awards accordingly. The grantee only allocates LSC funds to personnel and PAI expenses.

The grantee's written cost allocation policy defines the theory of cost allocation but does not detail the process used by the grantee to record various costs.

LSC Regulation 45 CFR §1630.3 (f) states:

> Where a recipient has only one major function, i.e., the delivery of legal services to low-income clients, allocation of indirect costs may be by a simplified allocation method, whereby total allowable indirect costs (net of applicable credits) are divided by an equitable distribution base and distributed to individual grant awards accordingly. The distribution base may be total direct costs, direct salaries and wages, attorney hours, numbers of cases, numbers of employees, or another base which results in an equitable distribution of indirect costs among funding sources.

In addition, the *Fundamental Criteria* Section 3-5.9 Management Reports states:

> Common expenses shall be allocated among the sources on the basis agreed to by the applicable funding organizations, and in the absence of approved methods the allocation should be fair, consistent, and in an equitable manner to the individual cost centers, and funds. Further, the allocation formula should be adequately documented in writing with sufficient detail for the auditor, LSC, OIG, GAO, and others, to easily understand, follow, and test the formula.

The Executive Director explained that the written policy in place governs the process of cost allocation to various funding sources. He was also of the view that allocating expenses as they occur would require an enormous degree of administrative work to record and allocate individual transactions across funding sources.
Without a consistent and systematic basis for allocating direct and indirect costs, there is no assurance that LSC or the other funding sources will receive their fair and equitable share of costs incurred by the grantee.

No Audit Trail

Based on our review, we found that the grantee's accounting system does not provide an audit trail to perform testing of the allocation methodology. The OIG found that the grantee did not retain any records of the cost allocation schedules and formulas used during the audit period. Generally, the grantee does not allocate individual transactions across funding sources. Rather, the grantee distributes revenue to all the expense categories at the end of each fiscal year. Total expenses are categorized and expensed against different funding sources.

Overall, the grantee did not maintain an audit trail of the expense distribution. Therefore, the OIG could not perform test work to determine whether the LSC received its fair and equitable share of costs incurred by the grantee.

LSC Grant Assurance No. 18 for Calendar Year 2015 funding stipulates that grantees must maintain original (or digital images of) financial records and supporting documentation for LSC to audit and determine whether the costs incurred and billed are reasonable, allowable and necessary under the terms of the grant.

Section 2-5, Accounting Records, in the LSC Accounting Guide states the grantee's accounting records should provide an adequate audit trail for all transactions.

Additionally, the LSC Accounting Guide provides that allocation formulae should be adequately documented in writing with sufficient detail for the auditor, LSC OIG, GAO and others, to easily understand, follow and test the formula.

Without a historical record of the cost allocation schedules and formulas and an audit trail, LASEV's cost allocation methodology was not documented in sufficient detail to allow the OIG to test the formula on any transactions.

Recommendations: The Executive Director should:

Recommendation 5: establish a fair, transparent, consistent and systematic cost allocation methodology in accordance with LSC requirements and update the Accounting Manual with the revised, established methodology. In addition, the allocation formula is to be documented in writing with sufficient detail for the auditor, LSC, OIG, GAO, and others, to easily understand, follow, and test the formula.

Recommendation 6: ensure the accounting department establishes an audit trail by documenting all transactions to their funding sources.

Recommendation 7: ensure the record of cost allocation schedules and formulas are retained by the grantee.

DISBURSEMENTS

The OIG judgmentally selected and tested 88 disbursements totaling $115,102. As part of our testing, the OIG reviewed the adequacy of supporting documentation, whether the expense was LSC allowable, approved by appropriate level of grantee management, and properly recorded in the grantee's General Ledger.

Based on our test work, all of the disbursements were traced to the grantee's general ledger and were considered allowable per LSC's *Fundamental Criteria*. However, the OIG could not determine the amount charged to LSC due to the grantee's cost allocation methodology. The grantee's accounting system is not designed to provide separate and distinct receipts and disbursements of LSC and non-LSC funds and did not have an audit trail, a violation of LSC Regulation 45 CFR § 1610.9.

The OIG found that the grantee does not allocate costs to funding sources throughout the year, and instead distributes the revenue among categories of expenditures at the end of every fiscal year.

Policy

The OIG examined LASEV's Accounting Manual for policies and procedures related to disbursements and determined that the grantee does not have formal written policies related to disbursements.

Although the grantee's described practice appeared to be adequate, the grantee does not have policies relating to LSC unallowable costs, or formal written personnel travel and travel advance policies, including policies regarding prior approval and submission of expense reports.

The grantee's Accounting Manual does not provide guidance on separation of receipts and disbursements of LSC and non-LSC funds within their accounting system.

Section 3-4 Internal Control Structure of the LSC Accounting Guide stipulates that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*.

In addition, LSC Regulation 45 CFR § 1610.9 stipulates that the grantee's policies should outline how the accounting system provides for separation of receipts and disbursements of LSC and non-LSC funds. The failure to incorporate funding sources into the grantee's accounting system may result in an inability to document compliance with regulatory requirements.

Without current and adequate written policies and procedures in place, disbursements may be initiated and recorded that could violate management intentions, and possibly laws or grant restrictions. Written policies and procedures also serve as a method to document the design of controls and to communicate the controls to the staff.

Bank Signature Card

The OIG reviewed the grantee's bank signature card and found a signatory listed who is no longer employed with LASEV. The Administrator stated the individual was a senior attorney who left the organization in October 2014. Although grantee management overlooked removing her from the bank records in October 2014, upon the OIG's finding, management took immediate action to remove the senior attorney from the bank records.

Section 3-5.2 Annual Financial Statements and Audit Reports of the *Fundamental Criteria* provides that all check signers should be designated by the governing body. Authorized check signers who are no longer with the program should have their authorization to sign checks canceled promptly on the bank records.

The Administrator explained that not removing the Senior Attorney promptly as a signatory to the organization's bank account was a management oversight.

A terminated employee who is still an authorized bank signatory may increase the risk of fraud as checks may be fraudulently issued with signatures that are no longer or never authorized.

Inadequately Supported Travel Expenses

Fourteen travel related disbursements, totaling $6,258 were not adequately supported with documentation of the conference attendance or the training attended by the staff.

- Three disbursements totaling $2,224 were for hotel reservations made for staff travel.
- Four disbursements totaling $876 were for travel advances made to staff prior to their scheduled travel.
- Seven disbursements were for travel reimbursements claimed by the staff.

Without adequate documentation and internal verification, cash could be disbursed for goods and services not received, in advance of receipts, or in the wrong amount.

Inadequately Supported Reimbursements

Thirteen reimbursements to staff, totaling $2,705, were not adequately supported.

- Nine disbursements totaling $1,914 were for mileage reimbursements which were not adequately supported as the mileage log does not include origin and destination of miles travelled by the staff.
- Four disbursements totaling $791 related to vendor payments and staff reimbursements that were not supported with an invoice and/or a receipt.

The Executive Director explained that the mileage logs are reviewed by the Managing Attorneys who are familiar with and well informed of staff travels.

Without adequate documentation and internal verification, cash may be disbursed for goods and services not received, in advance of receipt, or in the wrong amount.

Inadequately Approved Disbursements

Twenty-five disbursements, totaling $8,321, did not have requisite approvals prior to commitment of funds.

- Fourteen disbursements, totaling $6,258 were related to travel expenses. These disbursements were also noted previously in the report as inadequately supported.
- Eleven disbursements, totaling $2,063 were related to reimbursements for travel, meals and supplies.

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

The Executive Director explained that he signs off on all check requests and is aware of employee travels because it does not happen very often. Also, he asserted that the mileage logs are reviewed by the managing attorneys who are familiar with and well informed of staff travels.

Lack of Board Oversight of Executive Director Expenditures

OIG review of the Executive Director’s expenses, purchases and reimbursements found that there was no oversight by a Board member.

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

In discussion with the Executive Director, he stated that there is no Board of Director oversight of his purchases.

Master Vendor List

Controls over master vendor list maintenance are lacking and need to be strengthened. Based on our review, LASEV’s Accounting Manual does not include formal written policies and procedures related to the maintenance of the organization’s master vendor listing, including adding new and updating existing vendors in the accounting system. Currently, both the Administrator and the Accounts Payable Assistant can add, deactivate and make necessary changes and updates to the master vendor list.

Section 3-4 of the LSC Accounting Guide, Internal Control Structure, stipulates that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with LSC's *Fundamental Criteria*.

The Executive Director did not provide an explanation as to why the grantee did not have a formal written policy over vendor maintenance. However, he agreed to have segregation of duties over maintenance of the master vendor list.

A lack of segregation of duties over the master vendor list may result in duplicate or erroneous payments.

Recommendations: The Executive Director should:

Recommendation 8:

(1) update the Accounting Manual to reflect current practices and include:
- prior approval for employee travel/training; and
- prior approval for purchases over $500.

(2) develop a written disbursement policy to include:
- guidance on separation of receipts and disbursements of LSC and non-LSC funds within the accounting system;
- Board approval for the Executive Director's expenses;
- segregation of duties over maintenance of the master vendor list to ensure that personnel with duties of adding new vendors is not also responsible for making changes to the master vendor list. Where adequate segregation may not be possible due to staff size, the system should be designed to ensure additional compensating controls are in place;
- a specific list of LSC unallowable expenses and ensure that LSC funds are not used to pay unallowable costs;
- controls to ensure that authorized check signers who are no longer with the program have their signatory authorization promptly canceled with the bank;
- documentation and internal verification such as receipts for all disbursement and verification of staff travels such as certificate or attendance record of the training or conference attended; and
- approving expenses prior to purchase.

EMPLOYEE BENEFITS

The OIG examined LASEV's employee benefits focusing on tuition, related expense reimbursement and the student Loan Reimbursement Assistance Program (LRAP). The OIG determined the grantee did not have written policies related to employee benefits. In addition, the OIG found that the practices in place related to employee benefits did not comply with LSC's *Fundamental Criteria*.

Policy

The grantee’s Employee Personnel Policy did not have written policies or procedures on financially related benefits offered to employees such as the LRAP and reimbursements for job related educational expenses. In addition, the Accounting Manual did not have written policies and procedures on how to account for tuition and textbook reimbursements.

The grantee offers employees the student Loan Reimbursement Assistance Program (LRAP) that is funded by the Legal Services Corporation of Virginia (LSCV). According to the OIG's discussion and test work, the grantee appears to have adequate procedures over the LRAP. Although the grantee has written guidelines from LSCV, these guidelines are not included in the grantee's Accounting Manual and should be included or referenced therein.

OIG review also noted the grantee has a practice of reimbursing employees for tuition and text books for courses that are related to their job function. The employees are expected to submit a request to the Administrator. After review and approval from the Administrator and Executive Director, the employee makes the tuition payment or purchases the textbooks. The employee can then submit a request for reimbursement accompanied with supporting receipts. Although the grantee stated that reimbursement for books had been provided to only one employee during the audit period under review, there are no written policies or procedures in the grantee's Accounting Manual relating to these types of employee benefits. In addition, OIG review of the practice noted some inadequacies.

As part of the internal control structure, the *Fundamental Criteria* provides that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*.

The grantee’s Administrator explained they were unaware that these policies should be documented in their Accounting Manual. Written policies and procedures serve as a method to document the design of controls and communicate those controls to the staff.

Lack of Supporting Documentation

During the audit period under review, the grantee made two reimbursements for textbooks. The LSC OIG examined the two reimbursements totaling $844, and found that neither of the reimbursements had supporting receipts. In addition, the grantee did not provide documentation approving one of the reimbursements that totaled $487.

According to grantee management, based on its allocation methodology, these reimbursement expenses were not charged to LSC funds. Nevertheless, the OIG believes the controls are inadequate, regardless of whether LSC funds were used or not. In addition, the OIG was unable to verify that LSC funds were not used because we could not confirm the cost allocation process through testing.

The LSC Accounting Guide stipulates that receipts for goods and the accuracy of invoices should be verified and documented, and approval should be required at an appropriate level of management before a commitment of resources is made.

The Administrator stated the grantee had receipts; however, the OIG was not provided copies to verify the expense.

Without adequate internal verification, cash may be disbursed for goods and services not received, in advance of receipt, or in the wrong amount.

Recommendations: The Executive Director should:

Recommendation 9: develop written policies and procedures related to tuition and textbook reimbursements that include requiring reimbursement requests be reviewed and approved by appropriate levels of management. In addition, the grantee should incorporate the written guidelines for the LRAP into its Accounting Manual.

Recommendation 10: ensure that all reimbursements are properly supported with receipts.

CONTRACTING

The OIG's review of the grantee's Accounting Manual found that it does not contain written policies and procedures related to contracting. In addition, review of the grantee's contracting practices determined that the grantee's practices do not fully adhere to LSC requirements.

Policy

The OIG examined the grantee's Accounting Manual and determined it did not contain written policies and procedures related to contracting, including identifying the various types of contracts, dollar thresholds and processes and procedures to administer contracts.

Section 3-5.16 of the LSC *Fundamental Criteria,* Contracting, stipulates that the grantee's formal policies should identify the contracting procedures for the various types of contracts, dollar thresholds and competition requirements to be followed by the grantee in complying with the *Fundamental Criteria*. It also requires the maintenance of documentation for contract actions.

The Executive Director explained that the contracting policy is LSC's requirement; however, the grantee does not use LSC funds for contracting expenditures. As a result, management does not have a written contracting policy in their Accounting Manual.

Contracting is a high-risk area for potential abuse and without detailed written procedures, there could be a lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover.

Approved, documented policies and procedures represent management's intentions on how processes are to be handled and also serve as a method to document the design of controls, communicate the controls to the staff and help the grantee ensure that proper controls are followed.

Contracts Not Centrally Filed

The OIG's review noted that contracts and related documentation were not centrally filed. Although, management stated that most of the contract documentation is filed in the Administrator's office, some of the documentation was obtained from various emails and staff members.

Section 3-5.16 of the LSC *Fundamental Criteria*, Contracting, requires the process used for each contract action be fully documented and the documentation maintained in a central file.

The Executive Director stated the office managers located at each of LASEV's offices assist in handling contracts for their respective offices. Although, an office manager may have the contract on file in their respective offices, at times, the administrative office may not have the updated contract filed in the vendor folder. Management acknowledged the need to enhance LASEV's contracting practices in terms of filing all contracts within the administrative office.

Failure to maintain a centralized filing system could result in less control and security over the contracting documentation. Management also runs the risk of lost or misplaced contracting information and non-compliance with LSC regulations on contract maintenance.

The OIG judgmentally selected seven (7) grantee business arrangements with total disbursements of $68,604 to test. Although all disbursements for contractual payments for services received were reviewed and approved by the Executive Director, the OIG determined the following.

Contract Actions Not Documented

Review of the contract files found that none of the seven (7) business arrangements had documented contract actions in the vendor folders. The grantee also does not document deviations from the approved contracting process.

Section 3-5.16 of the LSC *Fundamental Criteria*, Contracting, requires the process used for each contract action be fully documented and the documentation maintained in a central file. Any deviations from the approved contracting process should be fully documented, approved, and maintained in the contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure the deliverables are completed.

The Executive Director explained that not documenting the contract actions in the contract files was due to a management oversight.

Proper documentation helps ensure that approved contracts have followed all established procedures.

No Board Approval

The OIG's review of the contracts found that the grantee does not have a defined dollar threshold to require Board review and approval on contracts for high-dollar purchases.

Section 3-5.16 of the LSC *Fundamental Criteria*, Contracting, requires approval levels (including items that need to be approved by LSC) should be established for each contract type and dollar threshold, including when the board of directors should be notified and/or give approval.

The Executive Director explained there is no defined dollar threshold for Board oversight and approval on contracts because he does not deem it necessary to consult the Board on various contracts as the organization has not engaged in large contracts.

Contracting is a high-risk area for potential abuse. Improper contracting actions could be entered into without proper approval that could result in waste and abuse of scarce grantee funds.

No Contracts

Of the seven (7) business agreements tested, four (4) totaling $42,398, did not have written contracts on file.

Section 3-5.16 of the LSC *Fundamental Criteria*, Contracting, requires the process used for each contract action be fully documented and the documentation maintained in a central file. Any deviations from the approved contracting process should be fully documented, approved, and maintained in the contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure the deliverables are completed.

The Executive Director explained that most of the contracts the LSC OIG tested were made prior to the consolidation of Eastern Virginia Legal Aid Society and Legal Services of Eastern Virginia which formed LASEV in 2004. These business agreements were continued as a normal part of business. However, since the merger took place 12 years ago, and the revised LSC Accounting Guide has been in place since 2010, there has been sufficient time for the grantee to review all business arrangements to ensure they have current contracts on file. Without a formal contract, the statement of work and other contract terms cannot be adequately communicated, monitored, and enforced which may obstruct management's ability to prevent or detect the risk of fraud, waste and abuse.

No Competition

Out of the seven (7) business agreements reviewed, three (3) totaling $52,241 were subject to competition in accordance with the grantee's practices. However, management could not provide any evidence of competitive quotes obtained for the business arrangements in question.

Section 3-5.16 of the LSC *Fundamental Criteria*, Contracting, requires the type and dollar value of contracts that require competition be included in the policies of the grantee. Documents to support competition should be retained and kept with the contract files.

Also, based on the grantee's explanation, LASEV's contracting practices include soliciting three (3) competitive quotes for contracts totaling $10,000 or more.

The Executive Director asserted that competitive quotes were obtained for some of the contracts the grantee entered into; however, the competitive quotes not filed with the awarded contract were due to a management oversight.

By not soliciting quotes from more than one vendor for large contracts, it is not clear whether the grantee received the best price and service available for the money spent.

Executive Director's Approval Could Not Be Verified

Of the seven business agreements tested, only three totaling $26,206, had written contracts on file. Although the contracts stated the terms and conditions, duration of contract, and the contract amount, the LSC OIG could not verify whether two of the contracts were approved as they were not signed.

The OIG could only verify one of the contracts, totaling $3,177, being properly approved by the Executive Director as evidenced by his signature and date.

We could not verify whether the other two (2) contracts were properly and timely approved by the Executive Director. One contract, totaling $13,828, was only initialed by the Executive Director and another contract, totaling $9,200, did not have any documented signatures.

Section 3-5.16 of the LSC *Fundamental Criteria*, Contracting, stipulates that the required approval level (including items that need to be approved by LSC) should be established for each contract type and dollar threshold, including when the Board of Directors should be notified and/or give approval.

In discussion with the Executive Director, he explained that he reviews and approves all disbursements prior to making payments as evidenced by his signatures on the check request forms. However, not documenting and maintaining signed contracts on file were due to a management oversight.

Without the proper approval, improper contracting actions could be entered into that may result in waste or abuse of the grantee's scarce funds.

Deliverables

Of the seven (7) business agreements tested, the OIG could not verify deliverables obtained by the grantee for one (1) of the agreements, totaling $3,300. The contractor in question provides janitorial services for the Eastern Shore Office, but did not provide invoices detailing the work performed. Yet, the grantee continued to make payments to the contractor based on the standard monthly rate.

Section 3-5.16 of the LSC *Fundamental Criteria*, Contracting, provides that the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure the deliverables are completed.

In addition, Section 3-5.4 of the LSC *Fundamental Criteria*, Cash Disbursements, requires the receipt of goods and the accuracy of invoices should be verified and documented before cash is disbursed.

The Executive Director stated that the contract in question is with a resident of the community near the eastern shore who has been providing janitorial services to the grantee for a long time. He added that not receiving invoices from the contractor before payments were made was due to a management oversight.

Without verification of the work performed through a billed invoice, cash may be disbursed for goods and services not received.

Recommendations: The Executive Director should:

Recommendation 11: develop and implement contracting policies and practices that adhere to LSC's *Fundamental Criteria*, including:

a) contract procedures for the various types of contracts, dollar thresholds, and competition requirements;
b) having each contract action fully documented;
c) adequate supporting documentation for competition and sole-sourcing of contracts;
d) a centralized filing system for all contracts, where a file is established for a specific contract containing all pertinent documents related to the solicitation of bids, including receipts and evaluation of bids, vendor selection or sole source justification, and the award of the contract; and
e) documentation of contract approvals at an adequate level of management, including Board approval on high-dollar contracts.

Recommendation 12: familiarize staff with LSC's *Fundamental Criteria* related to contracting to ensure that all requirements are met, including documentation of the contracting process, rationale and decisions made.

Recommendation 13: ensure all products and services obtained or performed within specific, agreed-upon terms are supported by a valid formal document.

Recommendation 14: ensure invoices are received and the work performed by the vendor is verified prior to making payments.

MANAGEMENT REPORTING AND BUDGETING

The OIG reviewed the grantee's management reporting and budgeting process and determined the grantee does not have written policies and procedures in this area. We also found that practices in place related to management reporting and budgeting do not fully adhere to LSC guidelines.

Policy

The OIG reviewed the grantee's Accounting Manual and noted it did not contain policies and procedures related to management reporting and budgeting.

In establishing an adequate internal control structure, each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria* contained in the LSC Accounting Guide.

The Executive Director stated he was not aware that policies and procedures relating to reporting and budgeting need to be documented in the Accounting Manual.

Written policies and procedures serve as a method to document the design of controls and to communicate those controls to the staff.

Inadequate Management Reports

The OIG found that the grantee's practices in place related to the management reporting and budgeting process are not entirely adequate. We noted that management reports do not provide funding source detail. The reports list the budgeted versus actual revenue by funding source. However, the line item expenses included in the reports are not categorized by funding sources.

Section 3-5.9 Management Reports in the *Fundamental Criteria* of the LSC Accounting Guide states that the accounting and financial reporting system shall be designed to facilitate management report preparation. In addition, it states that special reports by funding source designed to meet grantor and internal reporting requirements are to be prepared as required.

The Executive Director stated that the accounting system in use by the organization is not designed to generate reports by funding sources. However, management believes the reports generated in their current format are useful and aid in understanding the financial health of the grantee.

The preparation of management and funding source reporting could be costlier when the financial system is poorly designed.

Recommendations: The Executive Director should:

Recommendation 15: incorporate in the grantee's Accounting Manual, policies and procedures related to internal reporting and budgeting, timelines of the various reports and personnel responsible for the execution and review of the reports.

Recommendation 16: update the design of the accounting system to allocate expenses by funding source so as to allow the grantee to generate flexible reports by funding source detail.

GENERAL LEDGER AND FINANCIAL CONTROLS

Policy

The grantee's Accounting Manual does not include policies over the process of resolving outstanding checks. In addition, our review of the grantee's practice noted the controls in this area need to be strengthened.

The LSC Accounting Guide stipulates that checks outstanding for more than six months should be investigated or resolved.

Section 3-4 Internal Control Structure of the LSC Accounting Guide stipulates that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with LSC's *Fundamental Criteria*.
Having written procedures over outstanding checks presents an adequate control over financial transactions and may decrease the possibility that irregular transactions will be undetected or accountability for funds lost.

No Adequately Trained Staff

OIG review of the grantee's operation found that there were no adequately trained personnel managing the accounting duties.

Section 3-4, Internal Control Structure, of the LSC Accounting Guide stipulates each grantee must have adequately trained, competent accounting personnel to properly document, record, account for, and report financial transactions.

The OIG was informed by the Executive Director that the previous Deputy Director was responsible for the accounting and finance functions; however, his role was changed at the end of November 2015. The Executive Director explained that the change was a management decision in consultation with the Independent Public Accountant (IPA).

Furthermore, the Executive Director asserted that LASEV currently does not have a permanent financial/accounting staff, but are actively recruiting to fill the position. However, to alleviate the difficulty in performing the accounting functions, temporary accounting employees were hired to perform limited accounting duties such as bank reconciliations.

With the absence of adequately trained personnel, the grantee may not be able to assure the accuracy, reliability and proper reporting of accounting information.

Outstanding Checks

The OIG's review determined that outstanding checks were not properly resolved. Test work showed the outstanding checks were recorded as cleared by the accounting staff but did not actually clear the grantee's bank account.

In a review of the grantee's November 2015 bank reconciliation, the OIG noted 56 out of 86 checks had been outstanding for more than 90 days. There were checks outstanding for more than 90 days from 2011, 2012, 2013, 2014 and months in 2015. Additionally, in a review of the December 2015 bank reconciliations, the outstanding checks from 2011, 2012, 2013, 2014 and majority of 2015 were recorded as cleared on a bank reconciliation performed on January 16, 2016 by the temporary accounting employee. However, the OIG found that these outstanding checks have not yet been negotiated according to the bank statement.

The OIG also reviewed the grantee's 2016 general ledger and determined there were no entries for these outstanding checks having been voided or reissued.

According to the grantee's Administrator, the outstanding checks were resolved during the December 2015 Bank Reconciliation performed by the temporary employee. The Administrator also stated that the temporary employee provided LASEV with a memo explaining how the outstanding checks were resolved. However, OIG review of the memo from the temporary employee found that it does not address how the outstanding checks were resolved. Afterwards, the Administrator contacted the temporary employee and determined that the checks had not been voided and informed the OIG. The grantee did not provide any further explanation on the outstanding checks in question.

By not performing proper journal entries for voided checks and the lack of a monitoring mechanism for checks outstanding for more than six months, the possibility of undetected fraudulent signatures or endorsements, alteration of checks, improper use of voided checks, or improper recording of bank transfers could result.

Bank Reconciliation

The OIG judgmentally selected and reviewed two months of bank reconciliations, November and December 2015, to ensure bank reconciliations are performed and reviewed. Our review found no evidence that the bank reconciliations performed were being reviewed by another individual. More specifically, the reconciliations were not documented by signatures and dates of when the bank reconciliations were reviewed, if they were reviewed at all.

Section 3-5.2 of the *Fundamental Criteria*, Annual Financial Statements and Audit Reports, stipulate that the reconciliations shall be reviewed and approved by a responsible individual. Such review shall be appropriately documented by signature and date.

The Executive Director explained that he only reviews the bank statement prior to the performance of the bank reconciliation. However, in the most recent bank reconciliations performed in January 2016 by the temporary employee, the Executive Director asserted that both he and the Administrator reviewed the bank reconciliations. Nevertheless, the bank reconciliations did not show evidence of review and approval performed such as signature and date of the Executive Director or the Administrator.

Lack of proper review and approval by a responsible individual can lead to fraud or misappropriation of funds, especially in an environment where full segregation of duties is not practicable.

Oversight of Journal Entries

The OIG's review of the grantee's Accounting Manual found that it does not contain written policies and procedures related to approval or oversight of journal entries. In addition, the OIG's review of the grantee's general ledger maintenance found that there were no approvals or oversight over journal entries. During our test work, we found a journal entry for $111,822; and the same amount was recorded in the bank reconciliations during fiscal year 2015 as a deposit from November 2012. According to the former Deputy Director, the transaction was LSC deferred revenue. He stated that he did not know how to close it out in the books, therefore the IPA made an adjusting entry to correct the error on December 31, 2015.

Section 3-5.6 General Journal of the *Fundamental Criteria* stipulates that each entry to the general journal should be fully described, adequately documented, sequentially numbered and approved by an authorized individual.

According to the Executive Director, besides the IPA, there was no other accounting staff assigned to review and approve journal entries made by the former Deputy Director.

Without proper oversight, unsupported or poorly referenced entries will make it difficult to trace and detect irregularities, and may increase audit costs. Also, incomplete, inaccurate, or unsupported entries to the general ledger increase the possibility that the financial data may misrepresent the actual financial position of the grantee.

Recommendations: The Executive Director should:

Recommendation 17: update the grantee's Accounting Manual to include written policies and procedures over the handling of outstanding checks and the review and approval of journal entries by an authorized individual.

Recommendation 18: consider hiring a trained accountant to properly document, record, account for and report financial transactions.

Recommendation 19: ensure proper journal entries are recorded in the general ledger for voided checks and follow up on checks which have been outstanding for more than six months.

Recommendation 20: document reviews of bank reconciliations by signature and date.

FIXED ASSETS

Policy

The OIG reviewed the grantee's Accounting Manual for policies and procedures related to fixed assets and determined that they do not fully adhere to LSC's *Fundamental Criteria*. Although, the grantee's written policies and procedures provide guidance on many of the elements, it does not provide direction on when and how a fixed assets inventory should be performed, and how the items are to be reconciled to the property records. In addition, the written policy does not specify tracking of sensitive electronic, non-capitalized items and does not list elements required by LSC to be detailed on the property records.

To establish an adequate internal control structure, each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria* contained in the LSC Accounting Guide. In addition, Section 3-5.4, Cash Disbursements, provides elements that should be included in the property record. The required elements are: (1) description of the property; (2) date acquired; (3) check number; (4) original cost; (5) fair value (if donated); (6) method of valuation (if donated); (7) salvage value, if any; (8) funding source; (9) estimated life; (10) depreciation method; (11) identification number; and (12) location.

In a discussion with grantee management, it was determined that management was unaware that all of the required elements needed to be listed in the grantee's Accounting Manual.

Written policies and procedures serve as a method of documenting the design of controls and communicating those controls to the staff.

Physical Inventory Not Conducted

The grantee has not conducted or maintained a physical inventory count every two years as required by LSC guidelines. In addition, the OIG found the grantee's physical inventory count procedures to be inadequate. LASEV maintained several inventory sheets for the various offices, and a depreciation record, maintained by the IPA.

Grantee management explained the last inventory count was performed in 2013, and was the first since the formation of LASEV in 2004. They also added that for the physical inventory count performed in 2013, the managing attorneys from each office were requested to submit a list of all property items present in their respective offices. The grantee did not demonstrate that the inventory count was reconciled to its accounting and property records.

Section 2-2.4 of the LSC Accounting Guide provides:

> That for property control purposes, a physical inventory should be taken and the results reconciled with the property records at least once every two (2) years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference, and the accounting records should be reconciled to the results of the physical inventory with an appropriate note included in the financial statements, if determined to be material by the recipient's auditor.

The grantee management stated that other than inventory and depreciation records, they were not aware they needed to also maintain property records.

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

Assets Not Tagged

Our review of the grantee's fixed assets found that some items were not tagged as required by the grantee. As per the grantee's practices, items above $5,000 and electronic items, such as computers and printers, are to be tagged. The OIG noted three items purchased in 2015 that met the grantee's standard to be tagged but were not. These items included a copier, a computer, and a printer in the Norfolk office.

According to the grantee's former Deputy Director, fixed assets have not been tagged within the last three years because LASEV was planning to get a new set of tags and replace all the old tags. However, staffing changes were going on at about the same time, so the process was placed on hold.

Without adequate tagging, there is no assurance that the grantee is properly safeguarding its property.

Recommendations: The Executive Director should:

Recommendation 21: update the written policies and procedures for property and fixed assets for conformity with the LSC *Fundamental Criteria* by:

a) documenting policies related to when and how property inventory is performed and how the items are reconciled to the property records;
b) listing elements required by LSC to be detailed on the property records; and
c) documenting policies and procedures for tracking sensitive electronic non-capitalized items.

Recommendation 22: ensure physical inventory is counted at least every two years and reconciled to the property and accounting records as required by LSC's *Fundamental Criteria*.

Recommendation 23: tag all existing equipment owned by the grantee and ensure the grantee adheres to its policy of tagging assets so as to enhance safeguarding of equipment.

CLIENT TRUST FUNDS

Policy

In our review of LASEV's client trust fund policies and procedures, the OIG noted the written policies and procedures contained in the grantee's Accounting Manual do not fully adhere to LSC requirements. Specifically, the grantee's written policy and procedures do not state a requirement for providing receipts to the client. Our review also determined that grantee practice was to not provide receipts to its clients.

In addition, the policy does not provide guidance on periodically reporting on client trust balances including LASEV's state escheat regulations to forward unclaimed funds to the state.

Section 3-4 of the LSC Accounting Guide, Internal Control Structure, stipulates that each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*.

In regard to the receipts, the Executive Director explained that because the grantee will only accept a money order or cashier's check, it is not necessary to provide receipts to the client as both the money order and cashier's check would include a payment stub kept by the client.

In general, the Executive Director believes that the grantee's current written policies and procedures over client trust funds were sufficient.

Receipt Not Provided to the Client

The OIG found that although LASEV maintains a receipt on file for recording purposes, LASEV does not issue receipts to its clients. Grantee management explained that because they only require a money order or cashier's check, it is not necessary to provide receipts to the client as both the money order and cashier's check include a payment stub retained by the client.

The check or money order stub may be a mitigating control; however, providing the client a receipt is a good practice to track incoming money to the organization. In addition, Appendix V of the LSC Accounting Guide states the client should be given a copy of the receipt. Without a receipt, there is no written acknowledgement that a payment has been received.

Recommendations: The Executive Director should:

Recommendation 24: update written policies and procedures over client trust funds to include:

- a requirement that the client is provided a receipt as stipulated in LSC's Accounting Guide; and
- procedures to report on client trust balances every five years in accordance with state escheat regulations.

Recommendation 25: follow applicable procedures to report on client trust balances every five years in accordance with state escheat regulations.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management clarified and resolved one recommendation contained in the report, agreed to take corrective action with respect to seventeen recommendations, partially responded to four recommendations and disagreed with taking corrective action as to three recommendations.

Grantee management stated the following:

- They will adopt a written policy that covers all types of derivative income as contained in the regulation. However, they stated that in practice the attorney's fees and interest income represent a very small dollar amount and LASEV has allocated interest and attorney fees in accordance with LSC guidelines.
- Their cost allocation system does not violate 45 CFR §1630.3(f). They explained that LSC's Office of Compliance and Enforcement (OCE) raised similar concerns during a site visit and determined that LASEV's allocation policy did not violate the regulations. They maintain that OCE is correct. However, the grantee asserted that due to the inordinate amount of time already expended, they will revise their allocation system to address the concerns raised.
- They acknowledged that they had neglected to remove a retired former Managing Attorney from the list of authorized check signers and stated that it had been corrected. However, they do not agree with a requirement for documenting prior approval for employee travel. They are not aware of the basis for the recommendation to update its Accounting Manual to reflect current practices which include a prior approval for purchases of $500. Grantee management also stated that they are unaware of any requirement that the Board approves any and all reimbursements of the ED's expenses. Lastly, grantee management stated that they do not know the meaning of the OIG's recommendation to develop a written disbursement policy to include approving expenses prior to purchase.
- The grantee clarified that they never had a Loan Reimbursement Assistance Program (LRAP) benefit. The grantee explained that the LRAP is funded by the Legal Services Corporation of Virginia (LSCV) and that LSCV is solely responsible for the program. The grantee also stated that they have discontinued the tuition and textbook reimbursement benefit.
- The grantee explained that the check request form with the attached authorizing memorandum and the school's documentation of expenses was authorized and approved by the Executive Director.
- They shall require a written invoice each month for the janitorial service in its Eastern Shore office and continue to comply with LSC's Fundamental Criteria.
- LSC's Accounting Guide does not require that a client receive a receipt when receiving client trust fund money and that LSC's Accounting Guide section 1-3

states that the appendices "are not mandatory and do not preclude the exercise of the recipient's professional judgment in developing additional or alternative accounting and reporting procedures that meet LSC requirements." The grantee also added that they only accept money orders or cashier checks from clients which provide their own receipt.

- They are not aware that there is any requirement for documented prior approval for employee travel; they have separation of receipts and disbursements of LSC and non-LSC funds; they had segregation of duties over the maintenance vendor list during the first eleven months of 2015; and they do not think it is acceptable to require staff attending conferences and trainings to bring back a certificate or attendance record.

Grantee management's formal comments can be found in Appendix II.

OIG EVALUATION OF GRANTEE COMMENTS

Based on the grantee's comments, there appears to be a general misunderstanding of the objective of internal controls. Not all internal controls may be specifically required by a funding organization but result from good management oversight and best practices. In addition to the internal controls documented in the LSC Accounting Guide, the Uniform Grant Guidance section 200.303, states that a non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

The proposed actions to address Recommendations 1, 5, 6, 7, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, and 25 are responsive. The actions planned by the grantee management to address the issues and to revise and update its Accounting Manual should correct the issues identified in the report. For the recommendations relating to cost allocation, the OIG maintains that the cost allocation system, as documented and implemented, was not in accordance with 45 CFR Part 1630 as the indirect costs are not divided by an equitable distribution base and distributed to individual grant awards accordingly. The grantee stated that they only allocated LSC funds to personnel and PAI expenses. However, this was not evident in their Accounting System.

All seventeen recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation provided.

The OIG considers Recommendation 9 closed as Grantee management has clarified their involvement with the Loan Reimbursement Assistance Program.

The grantee partially responded to Recommendations 4, 10, 13 and 24.

For Recommendation 4 on interest income, the grantee did not address how they would maintain adequate financial records to support the interest income allocation.

For Recommendation 10, while the OIG understands that the textbook reimbursements were supported with a check request form, a memo approved by the Executive Director and a printout of an online shopping cart listing books and total amount, the textbook reimbursements reviewed were not supported with the actual receipts and no documentation of approval was provided for one of the reimbursements.

For Recommendation 13, The grantee did not fully address the recommendation to ensure that all products and services obtained or performed within specific, agreed-upon terms are supported by a valid formal document.

For Recommendation 24, providing a receipt to the client is a good internal control to track incoming money to the organization and also a written acknowledgement given to the client that the payment has been received.

For recommendations 4, 10, 13 and 24, the grantee needs to have or maintain documentation to support the allocation of income; or the disbursement or receipt of funds.

Grantee management disagreed with Recommendations 2, 3, and 8.

For Recommendation 2 and 3, the grantee did not maintain a record of the composition of the investment account balance on which interest income was earned, therefore the OIG could not verify whether the interest income was adequately allocated to the funding sources.

For Recommendation 8: The manual update was recommended because:

- The OIG was informed by the grantee's Administrator that in practice, any purchase over $500 needs the Executive Director's approval.
- It is a good business practice for a Board Member to have oversight of the Executive Director's expenses. Approval is not necessarily required prior to each of the Executive Director's transactions but periodic oversight of the Board over the Executive Director's transactions is encouraged.
- Check request approval is not the same as or should not be in lieu of a formal prior approval for the trip or purchase itself.
- The purpose of the travel advance form is not the same as or in lieu of a check request form. Without a formal prior approval process, purchases may be made without the knowledge of the appropriate management or a purchase may be made at an unacceptable price or terms.

- Mileage for conferences, training or out of town travel is what would require supervisory approval. Mileage reimbursement is vulnerable to employee thefts resulting from travel claims for mileage that was not incurred, and for wages paid for hours not worked.
- The Administrator and the Accounts Payable Assistant have system capabilities to add, deactivate and make changes and updates to the master vendor list. A good internal control limits the number of individuals who can alter the master vendor list, which in turn may prevent duplicate payments and reduce the potential risk of fraud.
- It is a good management practice to obtain some type of assurance of training attendance. Generally, attendance at training classes are required for continuing legal or professional education and a certificate is obtained at the conclusion of the training.

The OIG will refer Recommendations 2, 3, 4, 8, 10, 13, and 24 to LSC management for resolution.

APPENDIX I

SCOPE AND METHODOLOGY

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

- Derivative Income;
- Contracting;
- Cost Allocation;
- Fixed Assets;
- Internal Management Reporting and Budgeting;
- General Ledger and Financial Controls;
- Disbursements;
- Employee Benefits; and
- Client Trust Funds

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

We assessed the reliability of computer generated data the grantee provided by reviewing available supporting documentation for review, conducting interviews and making physical observations to determine data consistency and reasonableness. We determined the data were sufficiently reliable for the purposes of this report.

Controls over client trust funds and internal management reporting and budgeting were reviewed by examining current grantee practices and reviewing the written policies contained in the grantee's Accounting Manual.

To evaluate the adequacy of the cost allocation process, we discussed the process for the scope period with grantee management and reviewed the cost allocation policies and procedures as required by the LSC Accounting Guide.

To evaluate and test internal controls over the disbursements, derivative income, contracting, fixed assets, employee benefits, general ledger and financial controls, we interviewed appropriate program personnel, examined related policies and procedures and selected specific transactions to review for adequacy.

To test for appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. The same consisted of 88 disbursements totaling $115,102. Our sample represented approximately 9.86% of the $1,167,166 disbursed for expenses other than payroll during the period January 1, 2015 to December 31, 2015. We reviewed invoices and vendor lists then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable LASEV regulations, and LSC policy guidance.

The on-site fieldwork was conducted from January 27 to February 4, 2016. Our work was conducted at the grantee's office in Norfolk, VA and at LSC headquarters in Washington, DC. We reviewed documents pertaining primarily to the period January 1, 2015 through December 31, 2015.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Raymond Hartz
Executive Director

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Sherry Harrison
Administrator

August 22, 2016

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

Dear Mr. Seeba:

I am writing in response to the Draft Report on Selected Internal Controls at Legal Aid Society of Eastern Virginia, Inc. LASEV believes that it is important to remember that that this audit was prompted by LASEV's decision to reassign its Deputy Director who had been the principal financial officer of LASEV since its inception. The audit was conducted while LASEV was in a period of transition. Significantly, no wrongdoing, fraud or waste was identified by the Draft Report. Our response to the Draft Report is as follows:

AUDIT FINDINGS

DERIVATIVE INCOME

LASEV agrees that it did not have a written policy regarding derivative income, including attorneys' fees. In practice, these represent very small dollar amounts and LASEV has allocated interest and attorney fees in accordance with LSC guidelines, but we neglected to have a written policy. LASEV shall adopt a written policy that complies with Recommendations 1 through 4.

COST ALLOCATION

LASEV does not agree that our cost allocation system violates 45 CFR 1630.3(f). The Legal Services Corporation's Office of Compliance and Enforcement raised similar concerns during a site visit approximately six years ago. At that time LASEV was allowed the opportunity to present its position and OCE determined that LASEV's allocation policy did not violate the regulations. Since that time LASEV has continued to use the OCE approved allocation policy.

LASEV continues to maintain that LSC's Office of Compliance and Enforcement is correct. However, due to the inordinate amount of time already expended by LASEV on this issue, LASEV shall revise its allocation system to address the concerns raised in Recommendations 5 through 7. LASEV is in the process of examining the allocation policies of other programs and shall revise its allocation system and its entire Accounting Manual.

DISBURSEMENTS

The Draft Report claims to have tested 88 disbursements but "could not determine the amount charged to LSC due to the grantee's cost allocation methodology." LASEV's accounting manual provides that "LSC funds are used to fund Judicare (CoA, Line #7410) in Non-Personnel costs. All other LSC costs are used in Personnel costs." This means that no LSC funds are used for non-personnel items (with the Judicare exception of Line #7410, which is 100% LSC funded). LASEV and LSC's Office of Compliance and Enforcement believe this is fully compliant with 45 CFR 1610.9 and 45 CFR 1630.3(f). As stated above, however, LASEV is revising its cost allocation system to address the concerns raised in the Draft Report.

The Draft Report also claims that a number of disbursements were not adequately supported or approved. This assertion is inaccurate. LASEV asked the author of the Draft Report to identify which disbursements lacked appropriate support and received a supplemental communication which LASEV shall respond to in addition to the Draft Report. In each and every case, the Draft Report is simply incorrect. Every single disbursement was adequately supported and approved.

<u>Inadequately Supported Travel Expenses</u>

The Draft Report notes "fourteen travel related disbursements, totaling $6,257.75 were not adequately supported." This assertion is not correct. In the supplemental communication with LASEV, the Draft Reports author identified the following:

Travel Advance not properly approved.

Check 21238 "Travel advance form was self-approved by the employee"

> This is not accurate. The travel advance form is used only as supporting documentation for the check request form, which is what actually authorizes payment. The employee signed the travel request form and attached it to the check request form which was submitted to the Executive Director. The check request form has three signature lines: a place for the person requesting the check to sign, the Managing Attorney of that office to sign and the Executive Director to sign. A check cannot be issued until the Executive Director has signed this form. In this instance, the employee was the Managing Attorney of the Peninsula Office, she signed as both the applicant and the Managing Attorney. The Executive Director signed approving the check request, to which the travel form was attached. The travel advance was properly approved and authorized by the Executive Director.

Check 21127 "Travel advance form was not signed by the ED."

> This is not relevant, because there is no reason for the Executive Director to sign the travel advance form. The Executive Director did approve and sign the check request form, to which the travel form was attached. The Executive Director properly approved and authorized the check request. The travel form is merely a piece of supporting documentation for the check request form. The travel form, in and of itself, does not authorize the disbursement of any funds to anyone. Only the check request form begins the process to do that (the check request form, once signed by the Executive Director, allows for a check to be printed, but the check still needs

two additional signatures before money is disbursed). Only the check request form is an authorizing document, as set out in LASEV's Accounting Manual.

Check 21209 and Check 20519 "Travel advance form was self-approved by the ED" and "Travel advance form was missing signatures from the requester and approver."

Neither statement is relevant. Both check request forms were properly approved and authorized by the Executive Director. The checks were then signed by two other LASEV authorized check signers (the Executive Director is not an authorized check signer). The Draft Report repeatedly takes the position that the Executive Director cannot be reimbursed without the prior approval of the Board of Directors, but nowhere does the Draft Report identify the federal regulation, the LSC Accounting Guide or LASEV's Accounting Manual provision to support this position. There is no such requirement for Board approval.

Travel Reimbursements

"No prior approval for the travel and no approved travel expense report used in total amount of $3,157.66." Check 21038, Check 21096 and Check 20951.

This is simply inaccurate.

Check 21038 is to reimburse airfare for a Managing Attorney attending a National Consumer Law Center conference in Texas. The check request form was properly approved and authorized by the Executive Director. Attached to the form is the receipt from her purchase of the roundtrip airline ticket. In addition, with this conference as with all conferences, LASEV either pays for the employee's right to attend the conference or applies for a scholarship well ahead of time. In this case, LASEV paid for the conference six weeks before we reimbursed the employee for the airfare. When LASEV paid for the employee's ability to attend the conference, LASEV gave prior approval for the employee to travel to the conference.

Check 21096 is to reimburse for the expense of the shuttle from the airport to the hotel for the Texas NCLC conference. The check request form was properly approved and authorized by the Executive Director. Attached to the form is the confirmation of the shuttle booking showing that it was paid for by the Managing Attorney.

Check 20951 is to reimburse airfare for a Managing Attorney attending a National Institute of Trial Advocacy conference in Colorado. The check request form was properly approved and authorized by the Executive Director. Attached to the form is the receipt from the purchase of the airline ticket. In this case, LASEV applied for and received a scholarship to attend the conference without charge.

LASEV believes that these expenses are adequately supported and approved.

"No Board oversight over the Executive Director's travel reimbursements."

There is no requirement for the Board to approve reimbursements to the Executive Director. The check requests were properly approved and authorized by the Executive Director, with mileage logs attached. The checks were signed by two authorized check signers.

Executive Director's Training Reimbursement

"had no Board oversight in total amount of $34.13."

This was to reimburse the Executive Director for the purchase of sandwiches and sodas for new attorneys to eat while he conducted a new attorney training for them. The check request form was properly approved and authorized by the Executive Director. There is no requirement for the Board to approve reimbursements to the Executive Director.

Mileage Reimbursements

"No evidence of review of mileage reimbursements claimed."

LASEV does not understand this claim. Each of the check requests were properly approved and authorized by the Executive Director. Each of the check requests had attached to it the mileage log signed by the employee, which indicates the date of travel, where the employee travelled to, the number of miles travelled and the reason for the travel, including the specific case the travel was in support of when appropriate. The check requests are signed by the Managing Attorney (if there is one for the staff member) and the Executive Director.

Office Supply Reimbursement

"The check request was not signed by the person/employee asking for the reimbursement."

A Managing Attorney, who is a member of Sam's Club, purchased multiple cans of coffee and sugar for the office. LASEV purchases coffee this way because it has found it to be the least expensive way to purchase ground coffee for the Norfolk office. The Managing Attorney provided the coffee, sugar and receipt from Sam's Club to the Administrator, who put the coffee and sugar away and prepared the check request form with the receipt attached to it. The check request form was properly approved and authorized by the Executive Director. The person who received the items prepared the check request form. Had LASEV called the store to have the coffee and sugar delivered, we would not have the delivery person sign the check request form, we would have the person who received the delivery do so. The receipt for the items was attached to the check request form and the items were received by a person other than the one receiving reimbursement. Requiring the Managing Attorney's signature on the check request form would in no way prevent fraud or minimize the risk of fraud.

Recommendation 8

(1) LASEV does not agree that there is any requirement for documented prior approval for employee travel, and applying this requirement with respect to mileage reimbursement would have potentially catastrophic results. Such a requirement would be inefficient and time consuming, would serve no purpose and in some cases the requirement would be simply impossible to obtain. LASEV is a busy law firm. Requiring attorneys to receive written permission from the Managing Attorney or Executive Director before they can drive to court is neither realistic nor appropriate. Two of LASEV's offices do not have a Managing Attorney in the office. Also, the Managing Attorneys and the Executive Director carry caseloads and are often in court. LASEV regularly receives extremely short notice for domestic violence protective order hearings and eviction proceedings, very often far less than 24 hours. For a LASEV Staff Attorney to have to explain to a victim of violence seeking our help that we could not assist because there was no one in the office to provide written permission for the attorney to drive to court would be shameful. Such a requirement is totally out of place and inappropriate in a law firm made up of trial attorneys. LASEV is confident that no Legal Aid program in the United States has such a policy, certainly not a program whose attorneys go to court as often as LASEV's.

With respect to the Executive Director, the effect of such a pre-approval requirement would be to simply eliminate mileage reimbursements. For the Executive Director to obtain prior approval from the Board of Directors before he could drive to Court or to a homeless shelter is simply impossible.

Regarding out of state conference travel, LASEV already gives prior approval to reimbursed travel by either paying for the conference or applying for a scholarship. When LASEV pays to allow an employee to attend a conference, or applies for a scholarship to allow an employee to attend a conference, LASEV is authorizing that employee to travel to that conference. If an employee were to sign himself or herself up on their own initiative to attend a conference and then seek reimbursement, he or she will not be reimbursed until and unless the Executive Director approves and authorizes the check request for the reimbursement. Of course, no employee has ever attempted this.

Regarding the $500 prior approval aspect to Recommendation 8, LASEV is not aware of the basis for this requirement. The Draft Report does not identify the federal regulation or other source for this requirement. Because there is no discernable or identifiable reason for this recommendation, LASEV does not agree.

(2) LASEV is not aware of any requirement that the Board approves any and all reimbursements of the Executive Director's expenses and the Draft Report does not cite any authority for this requirement.

Regarding the separation of receipts and disbursements within the accounting system, LASEV already does that. Under LASEV's current allocation system, all non-personnel expenses, with the exception of Judicare (Line 7410), are non-LSC. Or to put it another way, $0.00 of LSC funds are expended for indirect non-personnel expenses. This guarantees that no LSC funds are used for unallowable expenses or unallowed costs. As noted above, LASEV shall modify its allocation system, though LASEV maintains that the current OCE approved system is appropriate under 45 CFR 1630.3(f).

LASEV currently does have a segregation of duties over maintenance of the master vendor list. For the first eleven months of 2015, only the Deputy Director could remove a vendor from the Master Vendor list, the Norfolk Office Manager and the Administrator could not, they could only add names. When the Deputy Director was re-assigned in December, 2015, the Administrator of LASEV temporarily obtained Administrator of Quickbooks duties, but that was only until the new financial position was in place. For the first eleven months of 2015 (as there is now), there was complete segregation of duties regarding the Master Vendor list.

LASEV does not accept the recommendation to require staff attending conferences or trainings to bring back a certificate of attendance record. LASEV is proud of our attorneys and staff and recognizes that the attorneys could leave LASEV for increased financial rewards in the private or public legal sectors. LASEV's excellent trial attorneys do this job because of their deep commitment to justice and eradicating poverty. As such, it would be counter-productive for LASEV to take steps to insult and demean them, as the Draft Report suggests. Further, what would be gained? If the conferences attended by LASEV staff even had certificates of attendance, such a certificate would only provide evidence that the attorney was at the location of the conference, not that he or she actually attended the specific sessions, or any sessions. LASEV already knows they are at the conference because we paid for the airfare and hotel room. While it is possible to imagine silly ways of making employees prove they actually attended and paid attention at various conference sessions, the vital truth is that neither the federal regulations nor the LSC Accounting Guide require such.

LASEV acknowledges that it had neglected to remove a retired former Managing Attorney from the list of authorized check signers. This was an oversight by management and has been corrected. LASEV checks must be authorized by the Executive Director and signed by two authorized signers, so while this oversight was wrong, it carried negligible risk of fraudulent results.

LASEV does not know what the Draft Report means by the recommendation that we have a written policy approving expenses prior to purchase. As noted above, the conference travel expenses were approved prior to purchase by LASEV paying for the conference attendance or applying for and receiving a scholarship. The only other examples were the Managing Attorney purchasing coffee and sugar from Sam's Club and the Executive Director paying for sandwiches and sodas for new attorneys attending a training he was giving them. With respect to the sandwiches, this recommendation would require the calling of a special meeting of the Board of Directors to approve the thirty dollar lunch bill and would require that the staff attorneys pre-ordered their selections so the Board could be apprised of the cost for which we were seeking authorization. On the other hand, LASEV could also have made each attorney pay for the sandwich and soda individually and then submitted a reimbursement check request to be approved by the Executive Director. The result would still be the Executive Director authorizing reimbursement of the expense, the only difference is that many more forms were filled out and more time wasted.

With respect to the coffee and sugar purchase, LASEV acknowledges that it could create a new form but LASEV does not see how such a form would benefit LASEV in any way or eliminate any risk of fraud or waste. If the Draft Report's fear is an employee will purchase items that LASEV does not want or need, that fear is unfounded because the employee would still need to submit a check request for approval. Further, such a form is not required by either the Code of Federal Regulations or the LSC Accounting Guide.

More importantly, creating a rule that all purchases must obtain prior approval would needlessly hamstring our staff and, if the policy is followed, would create great delays and inefficiencies. Attorneys often pay various court clerk's offices for copies of orders and other papers from court files. Under the recommended policy, the attorney would need to identify the papers from the file, then return to the office, prepare a form asking for permission to copy those papers, obtain the appropriate signatures on the form, then fill out another form asking permission to drive back to court to obtain the needed paperwork so that the client can be zealously represented.

Employee Benefits

The Draft Report states that LASEV offers a Loan Reimbursement Assistance Program that is funded by the Legal Services Corporation of Virginia (LSCV). That assertion is not correct. LSCV is solely responsible for that program. As with the LSC LRAP, LASEV has no control of that program.

The Draft Report also notes that LASEV has a policy of reimbursing staff for tuition and textbooks for approved courses related to their job function. LASEV did not have written policies and procedures regarding that practice and acknowledges that it should have. LASEV has discontinued this benefit.

The Draft Report indicates that the tuition and textbook expenses paid in 2015 lacked supporting documentation. This is not correct. Attached to the check request form was a memo from the employee to the Executive Director seeking assistance with the costs and providing documentation of the cost of the class and texts. The memo was signed approved by the Executive Director prior to the employee preparing the check request form. The check request form, with the authorizing memorandum and the school's documentation as to the expenses attached, was authorized and approved by the Executive Director. The employee is a non-attorney single mother with one of the lower salaries at LASEV. LASEV paid the expense up front rather than making the employee come up with the money and then seek reimbursement.

Recommendation 9

LASEV has discontinued the tuition and textbook reimbursement benefit and never had a LRAP benefit. So this Recommendation will be fully complied with.

Recommendation 10

LASEV already fully complies with this recommendation.

CONTRACTING

All the business arrangements identified in the Draft Report, contrary to the Draft Report's assertions, have identifiable contract deliverables and LASEV does maintain all contracts and provided all requested contracts to the OIG. The Draft Report identifies four contracts that LASEV neglected to maintain on file. LASEV did not maintain copies of those contracts because no contract exists, and in each instance, the business arrangement is not governed by 3-5.16 of the LSC Fundamental Criteria. The business arrangements in question concerned: janitorial services for the Eastern Shore office; janitorial services for the Hampton office; lawn mowing at the Hampton office; and, Information Technology services.

The Draft Report was particularly concerned about the janitorial services provided at our Eastern Shore office. The Draft Report found a lack of documentation because "the statement of work should be sufficiently detailed so that the contract deliverables can be identified and monitored to ensure the deliverables are completed." The Draft Report found that it did not have identifiable deliverables, "The contractor in question provides janitorial services for the Eastern Shore Office, but did not provide invoices detailing the work performed. Yet, the grantee continued to make payments to the contractor based on the standard monthly rate."

LASEV "continued to make payments" because we knew the work was being performed. LASEV believes that the best way to determine whether a janitor has performed the work is not by consulting a detailed invoice; rather it is to look at the office and see if the trash has been removed, the carpet vacuumed, etc. The Draft Report does not explain why it believes that the employee in the Eastern Shore office is unable to tell if the office has been cleaned, but LASEV does not share this rather puzzling conclusion.

Section 3-5.16 of the LSC Fundamental Criteria recognizes that "not all contracts are the same." LASEV does not believe it needs a detailed invoice to know if the trash has been removed or the lawn mowed. LASEV is not purchasing an invoice, it is purchasing cleaning services. If the janitor refuses to clean, LASEV will tell him the business arrangement is over and we will find someone else. The express statement of flexibility based on real life circumstances in the Fundamental Criteria means that not all business arrangements need a formal written contract or a detailed invoice. Three of the business arrangements noted in the Draft Report concern janitorial services.

Further, LASEV believes that not all business arrangements are contracting within the meaning of 3-5.16 of the Fundamental Criteria. In 2008, LASEV decided to discontinue using the company which had been supplying janitorial services in our Hampton office, due to their poor performance. LASEV sought and received proposals from three janitorial services companies. LASEV selected one of the companies and has used their services since then. LASEV did not, however, enter in to a contract for a term of months or years. LASEV uses their services for as long as we determine it appropriate to do so. LASEV did not maintain those proposals from 2008, and LASEV does not believe that it was under an obligation from the federal regulations or the LSC Accounting Guide to do so.

Similarly, LASEV obtains most of its information technology and equipment from the same vendor, but we do not purchase all of our computers from that source. Regularly using a particular business does not mean that a contracting relationship exists within the meaning of 3-5.16. In most years, LASEV obtains all of it staplers or all of its coffee from the same source, but LASEV does not "contract" for the purchase of staplers or coffee, and 3-5.16 of the Fundamental Criteria does not apply.

The Draft Report also states that LASEV did not solicit competitive quotes for three contracts which were each in excess of $10,000. LASEV does not agree that the business arrangements in question are governed by the competitive bidding requirement. The three business arrangements cited in the Draft Report were with respect to: (1) postage meters; (2) janitorial services for the Hampton office; and, (3) information technology services.

LASEV's rental of the postage meters is not covered by the competitive bidding requirement because the rental and maintenance of the meters did not approach the $10,000 total. Only if one includes the postage that was put on the meters is that threshold met. But the postage is a separate and distinct expense item. The postage amount would be the same no matter what company we used to rent the meters from. The postage and the meter rental costs are separate expenses (meter rental is expense line 6220, postage is expense line 6332). The cost of the meter rental and maintenance was only about ½ of the threshold amount.

Regarding the janitorial services for the Hampton office, there is no contract or agreement that would exceed $10,000. LASEV pays on a monthly basis for the work performed, but LASEV is free to terminate this arrangement at any time. LASEV's policy does not require competitive bidding whenever a vendor has historically been paid more than $10,000, competitive bidding applies only when entering in to a contract for more than $10,000. That is not the case with the janitorial services for our Hampton office.

Likewise, the company LASEV principally purchases technology equipment and information technology from is not subject to the competitive bidding requirement because there is no contract and no arrangement for more than $10,000 of services has been entered in to. As noted above, LASEV purchases most of its computers from the company in question, but not all. If the price quoted to us for a computer (or other item) is too high, LASEV goes elsewhere. LASEV also purchases technology assistance from this company, but it does so in increments of 50 hours of block time. In 2015, LASEV made three separate purchases of block time for $3,750. These were completely separate and distinct purchases.

Recommendation 11

LASEV shall modify its Accounting Manual to further clarify contracting policy and shall continue to adhere to LSC's Fundamental Criteria.

Recommendation 12

LASEV shall familiarize staff with LSC's Fundamental Criteria.

Recommendation 13

LASEV shall require a written invoice each month for the janitorial service in its Eastern Shore office and continue to comply with LSC's Fundamental Criteria.

Recommendation 14

LASEV shall require a written invoice from the provider of janitorial services in its Eastern Shore office and continue to comply with LSC's Fundamental Criteria.

MANAGEMENT REPORTING AND BUDGETING

Recommendation 15

LASEV shall modify its Accounting Manual so to relate our internal management and budgeting reports and the timelines and responsibilities for such.

Recommendation 16

As noted above, LASEV shall modify its existing allocation system, though LASEV maintains that its current allocation system is fully compliant with federal regulations and the LSC Accounting Guide.

Recommendation 17 through 19 - Appear to have been omitted from the Draft Report

GENERAL LEDGER AND FINANCIAL CONTROLS

Recommendation 20

LASEV shall comply with this Recommendation.

Recommendation 21

LASEV has already complied with this Recommendation.

Recommendation 22

LASEV shall comply with this Recommendation.

Recommendation 23

LASEV shall comply with this Recommendation.

Recommendation 24 – Appears to have been omitted from the Draft Report

FIXED ASSETS

Recommendation 25

LASEV shall comply with this Recommendation.

Recommendation 26

LASEV shall comply with this Recommendation.

Recommendation 27

LASEV shall comply with this Recommendation.

CLIENT TRUST FUNDS

Recommendation 28

LSC's Accounting Guide does not require that a client receive a receipt when receiving client trust fund money. The Draft Report cites Appendix V of the LSC Accounting Guide as requiring LASEV to provide receipts. However, LSC Accounting Guide section 1-3 states that the appendices "are not mandatory and do not preclude the exercise of the recipient's professional judgment in developing additional or alternative accounting and reporting procedures that meet LSC requirements." As noted in the Draft Report, LASEV only accepts money orders or cashier's checks from clients, which provide their own receipt.

LASEV shall comply with the remaining part of this Recommendation.

Recommendation 29

LASEV shall comply with this Recommendation.

Thank you for considering these comments to the Draft Report. Please do not hesitate to contact me if you have any questions or if I can be of any assistance. I also want to thank your office for promptly providing me the additional information I requested and for making certain adjustments to the Draft Report with respect to comments allegedly made by LASEV staff.

Sincerely,

Raymond A. Hartz
Executive Director

A United Way
Member Agency

LSC