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DECEMBER 2024

DNA-People's Legal Services

RNO 703068

FINAL AUDIT REPORT ON SELECTED INTERNAL CONTROLS

OFFICE OF INSPECTOR GENERAL

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December 2, 2024

Rodolfo D. Sanchez
Executive Director
DNA-People's Legal Services, Inc.
P.O. Box 86515
Window Rock, AZ 865157

Dear Mr. Sanchez,

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit on selected internal controls at DNA-People's Legal Services, Inc. (DNA). Appendix III of the report includes DNA's response to the draft report in its entirety.

The OIG determined that DNA's proposed actions address Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 35, 36, 39, and 40. However these 34 recommendations will remain open until DNA provides us the items listed on page 36 to 37.

The OIG disagrees with DNA's responses to Recommendations 14, 15, and 34. These recommendations and the associated $929 in questioned costs will be referred to LSC Management for further review and action.

DNA disagreed with recommendations 16, 37, and 38. These recommendations and the associated questioned costs, totaling $1,645, will be referred to LSC Management for further review and action.

We will also refer to LSC Management, for further review and action, the matter relating to DNA's vehicle use policy. The Executive Director was assigned exclusive use of a vehicle to commute to and from work, for business use and reasonable personal use. The vehicle use logs DNA maintained had time gaps and no logs were provided for the vehicle assigned to the Executive Director. The OIG was unable to determine the questioned cost amount associated with personal use of DNA's company vehicles.

Please send us your response to close the 34 open recommendations, along with supporting documentation, within six months of the date of the final report. We thank you and your staff for your cooperation and expect to receive your submission by June 2, 2025.

If you have any questions, please contact me at (202) 507-1138 or tyatsco@oig.lsc.gov or Roxanne Caruso, Assistant Inspector General for Audit at (202) 997-2260 or rcaruso@oig.lsc.gov. We appreciate the courtesy extended to us during the audit.

Sincerely,

Thomas E. Yatsco
Inspector General
Enclosure

Cc: Ronald Flagg, LSC President
Lynn Jennings, LSC Vice President for Grants Management

DNA Board of Directors

Executive Summary

DNA-People's Legal Services, Inc. (DNA)
Final Audit Report on Selected Internal Controls

Objective

Our objective was to assess the adequacy of selected internal controls at DNA and determine whether costs were supported and allowed by laws, regulations, and LSC guidance. The audit period was January 1, 2022, through April 30, 2023.

Background

DNA provides civil legal aid to low-income people in remote portions of Arizona, New Mexico, and Utah, and seven Native American nations. DNA is headquartered in Window Rock, Arizona. According to the audited financial statements for calendar year 2022, DNA received about $4.2 million from LSC.

What We Found

We identified significant operational deficiencies and instances of noncompliance with LSC requirements in ten of the eleven key activities we reviewed. To address them, DNA needs to take timely action to strengthen its practices or formalize internal controls in writing for fixed assets, cost allocation, credit cards, contracting, derivative income, general ledger and financial controls, disbursements, budgeting and management reporting, payroll, and client trust funds.

We were unable to obtain sufficient documentation in the areas of credit cards and disbursements and were not provided with all documents requested related to cost allocation. This resulted in a scope limitation in our audit, rendering us unable to draw conclusions about DNAs compliance in some areas. A scope limitation is a serious situation that restricts our auditors' ability to complete all aspects of their planned audit procedures. In the area of fixed assets, we found multiple deficiencies relating to DNA's use of company vehicles. We also found computer-generated data to be unreliable and found transactions and journal entries coded incorrectly. We noted that DNA did not perform many required accounting and financial reviews.

Most findings result from DNA's policies and procedures being noncompliant with the LSC Financial Guide requirements, inadequate recordkeeping, and inadequate documentation of review and approvals.

Of the eleven key activities we tested, we determined that DNA adequately designed and properly implemented internal controls only for employee benefits.

We are questioning $2,574 due to unallowable purchases/transactions, improperly allocated derivative income, and general ledger coding errors.

What We Recommend

This report includes 40 recommendations, primarily to ensure the maintenance of adequate documentation, appropriate approvals and accurate recordkeeping. Recommendations also include updating DNA's policies to conform with the LSC Financial Guide.

Management's Response

DNA management agreed with 21 recommendations, partially agreed with 16, and disagreed with three.

DNA provided proposed actions for 34 Recommendations. However, these recommendations will remain open until DNA provides evidence of the strengthened procedures and policies to the OIG as detailed beginning on page 40.

The OIG will refer six recommendations as well as questioned costs totaling $2,574 to LSC Management for further review and action. We will also refer to LSC Management, for further review and action, the matter relating to DNA's vehicle use policy. The Executive Director was assigned exclusive use of a vehicle to commute to and from work, for business use and reasonable personal use. The OIG was unable to determine the questioned cost amount associated with personal use of DNA's company vehicles.

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Introduction

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place for grantee operations and oversight at the LSC grantee, DNA-People's Legal Services, Inc. (DNA). In accordance with the LSC Financial Guide[1], Section 2.5.2, an LSC recipient, such as DNA, is required to establish and maintain adequate accounting records and internal control procedures. The LSC Financial Guide defines internal control as follows:

> The process put in place, maintained, and overseen by the recipient's Board of Directors and management to provide reasonable assurance that the organization:
>
> - safeguards assets against unauthorized use or disposition;
> - produces reliable financial information and reporting; and
> - complies with regulations and laws that have direct and material effect on its programs.

The LSC Financial Guide, Section 2.5.2.b, further states that "a strong system of internal controls can help grant recipients prevent and detect potential fraudulent acts and appropriately manage grant funds."

Our objective was to assess the adequacy of selected internal controls at DNA and determine whether costs were supported and allowable by laws, regulations, and LSC guidance.

To accomplish the audit objective, we evaluated selected internal controls in the following eleven financial and operational areas: fixed assets, credit cards, contracting, derivative income, general ledger and financial controls, cost allocation, disbursements, budgeting and management reporting, payroll, client trust funds, and employee benefits.

The audit period under review was January 1, 2022, through April 30, 2023 (audit period).

Background

DNA is a nonprofit legal aid organization that provides free civil legal services to low-income people who otherwise could not afford to hire an attorney. Since its inception, DNA has provided free legal aid in remote portions of three states, including Northern Arizona, Northwest New Mexico, and Southern Utah, and seven Native American nations. DNA's mission is to provide access to justice to those who are low income and vulnerable by providing high quality legal services and education while

[1] Effective January 1, 2023, the Accounting Guide for LSC Recipients (2010 Edition) was superseded by the LSC Financial Guide. Because the audit period was January 1, 2022, through April 30, 2023, we used both guides as criteria for our findings. However, we ensured that all recommendations made in the report are consistent with the current LSC Financial Guide.

respecting tribal sovereignty and cultural traditions. DNA's administrative office is in Window Rock, Arizona.

According to the audited financial statements for the year ending December 31, 2022, DNA received total revenue and support of $5,344,147. LSC provided $4,277,318 or approximately 80 percent of the total support.

Audit Results

We found that for ten of the eleven areas reviewed, DNA needs to strengthen its practices or formalize, in writing, internal controls (See Figure 1: Summary of Findings). We found that DNA's internal controls for operations and oversight of employee benefits were adequately designed and properly implemented.[2]

Figure 1 - Summary of Findings

Audit Section	Findings Summary
Fixed Assets	• Inadequate policies (asset disposition, vehicle use) • Non-compliance (unallowable costs charged to LSC grants, adherence to federal payroll tax withholding and requirements) • Inadequate practices (vehicle logging, inventory reconciliation)
Cost Allocation	• Inadequate policies (documenting allocations) • Inadequate practices (not following DNA policies) • Inadequate recordkeeping (performing and documenting cost allocation)
Credit Cards	• Inadequate practices (unallowable purchases and lack of fund allocations) • Inadequate oversight (lack of Board of Directors' review and approval of Executive Director's expenses)
Contracting	• Inadequate policies (preapproval by LSC) • Inadequate practices (lack of documentation) • Inadequate oversight (contract deliverables not determinable)

[2] Personal use of DNA vehicles, which the Internal Revenue Service considers an employee fringe benefit, was reviewed under Fixed Assets. We found that DNA needs to strengthen its policies for personal use of DNA vehicles.

Audit Section	Findings Summary
Derivative Income	• Non-compliance with LSC regulation (misclassified rental income, improperly allocated attorney fees)
General Ledger and Financial Controls	• Inadequate policies (accounting for unallowable costs, segregation of duties for bank reconciliations and bank deposits) • Inadequate practices (bank statement reconciliation, petty cash reconciliation) • Inadequate oversight (review of bank reconciliations, cash receipts, and petty cash)
Disbursements	• Inadequate policies (prohibition, local travel, travel advances) • Inadequate practices (lack of fund allocation process)
Budgeting and Management Reporting	• Inadequate policies (management report policy does not adhere to LSC requirements) Inadequate practices (unprepared management reports, unprepared budgets)
Payroll	• Inadequate oversight (documenting review and approval) • Lack of segregation of duties
Client Trust Funds	• Inadequate practices (monthly reconciliations)

We are reporting a scope limitation in this audit—which is a serious situation that restricts our auditors' ability to complete all aspects of their planned audit procedures. The OIG was unable to obtain sufficient documentation in the areas of credit cards and disbursements due to DNA being unable to provide the specific LSC funding allocations as requested. Additionally, we were not provided all documents requested in the area of cost allocation and found that not all journal entries were prepared for our audit scope period, thus preventing us (and, likely, any third party) from determining how these transactions were allocated. The OIG concludes that scope limitations exist in the areas of credit cards, disbursements and cost allocation and as a result, internal controls in these areas were either insufficient (credit cards and disbursements) or could not be tested (cost allocation).

Fixed Assets

We found[3] that the policies in DNA's Accounting Manual generally complied with LSC regulations and guidance, and that DNA's property records complied with LSC's Property Record requirements.

However, we found deficiencies with the asset disposition policies, and the Company Vehicle Use policy. Our testwork also found that the inventory was not reconciled to the general ledger, all requirements in the Company Vehicle policy were not followed, and DNA did not include personal use of vehicles as a taxable fringe benefit.

DNA's Accounting for Capital Assets Policies Do Not Fully Comply with LSC Regulations and Guidance, and Controls Over the Physical Inventory Process Need Improvement

We found that the policies in DNA's Accounting Manual, Accounting for Capital Assets, Disposals of Capital Assets section, do not comply with two LSC asset disposal provisions: the prohibition against disposing of grantee personal property by transfer to grantee staff or board members and the documentation requirement for grantee asset disposal.

The DNA Accounting Manual, Disposals of Capital Assets section, states that:

> If no other avenues are available, the property may be sold to an employee or to a member of his/her family. When this situation occurs, all employees shall be given an opportunity to bid on the property.

In contrast, LSC's regulations governing property, 45 C.F.R. § 1631.12(d) states: A recipient may not dispose of personal property by sale, donation, or other transfer of the property to its board members or employees.

We also found that the DNA Accounting Manual does not comply with the LSC Financial Guide, Section 3.6.3, which requires documentation for disposed grantee assets. The DNA Accounting Manual includes methods to dispose of assets but there is no requirement to document disposals. Yet, the LSC Financial Guide, Section 3.6.3, requires that recipient property and equipment disposal policies outline documentation requirements; the ultimate disposition data must include the date, method of disposal, and approval. This section of the LSC Financial Guide additionally requires recipients to record the sales price, valuation method, and gain/loss amount if the property was sold. DNA told us that their Accounting Manual was updated in November 2019, with involvement from the LSC Office of Compliance and Enforcement, and that the manual was also shared with LSC during

[3] To evaluate whether the grantee had adequate controls over purchasing, recording, inventorying, and disposing of fixed assets, we reviewed DNA's policies, conducted interviews, and performed testwork on a sample of assets.

their competitive grant bidding process. DNA staff did not answer the OIG interview question about the process for disposing of assets, stating they had not disposed of fixed assets during the audit period. An interviewee stated they did not know how disposals were documented and could not answer the question without the policy. During our fieldwork, DNA staff stated that their asset disposition policies will be reviewed and updated in their new Accounting Manual; DNA staff further indicated that the updates were under review and revision.

Failure to document asset disposal violates LSC requirements, as outlined above. Additionally, without asset disposal documentation, DNA lacks information to support asset accountability (from purchase through disposition) or to support journal entries when removing assets from the inventory and accounting records.

We recommend that the Executive Director:

Recommendation 1: Update the DNA Accounting Manual to align with LSC requirements in 45 C.F.R. § 1631.12(d) that prohibit giving or selling assets to DNA employees and/or Board members.

Recommendation 2: Add asset disposal documentation requirements to the DNA Accounting Manual to ensure that documentation is maintained for each disposed asset.

DNA's Inventory Record Was Not Reconciled to the General Ledger

DNA did not provide a document showing that the year-end inventory was reconciled to the general ledger, thus DNA is not in compliance with LSC physical inventory requirements. During our review, we found four items totaling $24,062 on the general ledger not on the property records. We found one item that was on the general ledger for a different amount than the property records. Based on property testing which verified that the assets existed with no exceptions, the OIG Audit Team's only concern is that a proper reconciliation had not been performed.

The LSC Accounting Guide, Section 2-2.4, Property, states that, "…the accounting records should be reconciled to the results of the physical inventory…." and the LSC Accounting Guide, Section 3-5.4(c) states that, "The property subsidiary record must agree with the general ledger property accounts." The LSC Financial Guide, Section 3.6.2, Physical Inventory, states that the grantee must, "…investigate and reconcile any differences between the physical inspection and property subsidiary ledger." The DNA Accounting for Capital Assets policy states that, "Property inventories will be taken at least every two (2) years… Results of the inventory will be reconciled to the property records and financial statements."

In an email dated October 23, 2023, the DNA Operations Manager stated that the inventory provided to OIG was performed as of October 15, 2021, contradicting the December 31, 2021, inventory date we were given during staff interviews.

Maintaining an accurate inventory is a critical step to ensure accountability of assets. A complete and accurate inventory is needed to ensure proper stewardship over assets acquired with LSC funds.

We recommend that the Executive Director:

Recommendation 3: Review the periodic inventory and verify that the inventory reconciles to the general ledger. Document review with a signature and date or initials and date.

Controls Over the Use of DNA Vehicles Are Weak and Need Improvement

DNA had two Company Vehicle policies in effect during the audit period.[4] We found the following internal control weaknesses over the use of DNA vehicles.

The DNA Company Vehicle Policy Does Not Require Employees to Maintain Vehicle Use Logs

DNA's current Company Vehicle policy does not require staff to maintain any vehicle use logs and states that company vehicles may be used for mixed business/personal use and for personal use. The previous policy required logging only business use. However, the current policy does not state that all use, including personal use, must be logged or that the value of personal use is considered a taxable benefit.

Lack of vehicle use logs that track *all* use, both business and personal, contradicts LSC regulations and Federal tax law. LSC regulation 45 C.F.R. § 1630.5 includes the standards governing the allowability of costs under LSC grants or contracts.[5] The regulation states that costs charged to LSC grants must be, in part, actually incurred in the performance of the grant, reasonable and necessary for the performance of the grant (as approved by LSC), and allocable to the grant. Vehicle use logs tracking both business use and personal use allow DNA to properly charge vehicle costs to funding sources and to be sure that costs associated with personal use are not erroneously charged to LSC grants. Vehicle use logs are also needed to comply with IRS requirements to include the value of personal use. IRS Publication 15-B (2024), Employer's Tax Guide to Fringe Benefits, 1. Fringe Benefit Overview, Are Fringe Benefits Taxable?, states that, "Any fringe benefit you [an employer] provide[s] is taxable and must be included in the recipient's pay unless the law specifically excludes it." Personal use of a vehicle is not excluded by any applicable IRS requirements.

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[4] DNA's previous Company Vehicle policy was in effect from January 1, 2020, through April 20, 2023 (previous Company Vehicle policy). The current Company Vehicle policy took effect April 21, 2023. There are deficiencies with each policy and DNA's compliance with each policy.

[5] This regulation states in part, that expenditures are allowable under an LSC grant or contract only if the recipient can demonstrate that the cost was:

(1) Actually incurred in the performance of the grant or contract and the recipient was liable for payment;
(2) Reasonable and necessary for the performance of the grant or contract as approved by LSC; and
(3) Allocable to the grant or contract.

The LSC Accounting Guide, Appendix II, requires that LSC grantees accumulate payroll data as required by federal, state, and local laws; documentation must be maintained to support individual gross earnings. The LSC Financial Guide, Section 1.3, states, "This Guide does not replace guidelines associated with specific LSC grant programs and other laws, regulations, and directives that apply because of state or federal law, or the requirements of other donor organizations." Additionally, the LSC Financial Guide, Section 2.5.1.a, in part, requires LSC grantees to:

> Ensure the recipient's operations are conducted and managed in a manner that emphasizes:
>
> a. Ethical and honest behavior
>
> b. Compliance with applicable laws, regulations, and policies

The Executive Director stated that he has the discretion to change the Company Vehicle policy and that he decided not to maintain vehicle use logs. DNA management stated that they were not aware of the IRS requirement to calculate the value of personal use and report it as taxable income.

Without vehicle use logs or the ability to calculate the value of personal use, unallowable costs were charged to LSC grant funds, and the value of personal use could not be calculated and taxed as an employee fringe benefit. The vehicle expenses charged to the general ledger accounts DNA Vehicle Fuel, DNA Vehicle Insurance, DNA Vehicle Repairs and Maintenance, and DNA Vehicle Other during the audit period totaled $73,680. Of this amount, $140 was coded as unrestricted, some costs charged directly to grants, and the majority of costs charged to "To Be Allocated." Most of the "To Be Allocated" expenses are charged to LSC grants using the grantee's cost allocation process. Thus, DNA is charging the LSC grants for the cost of personal use, which is unallowable.

We recommend that the Executive Director:

Recommendation 4: Update the current DNA Company Vehicle policy to require logging all use by all employees.

Recommendation 5: Update the current DNA Company Vehicle policy section on permissible use to:

- Provide more detail on what constitutes personal use,
- Clearly define commuting to/from work as personal use, and
- Inform employees that the value associated with personal use will be accounted for as a fringe benefit in accordance with IRS regulations.

The DNA Company Vehicle Policy Allows Discretionary Changes by the Executive Director

The current and previous DNA Company Vehicle policies include a footnote that states, "The Executive Director is authorized to override any vehicle assignment made by the Director of Facilities or modify this policy as needed." The previous Company Vehicle policy required that all employees, including the Executive Director, log only business use. This policy also required that the Executive Director submit vehicle use logs monthly. However, the policy did not state to whom the Executive Director should submit their logs. We requested vehicle use logs for all eight company vehicles purchased in April 2020 and did not receive vehicle use logs for the vehicle assigned to the Executive Director.

As stated above, vehicle use logs are needed to calculate the value of personal use to comply with IRS requirements and to be sure that only allowable costs are charged to LSC grants. Also, as stated in the LSC Financial Guide, Section 2.5.2, LSC requires grantees to establish internal controls to safeguard assets, produce reliable financial information, and to comply with regulations and laws.

The Executive Director stated that both the current and previous DNA Company Vehicle policies included provisions granting the Executive Director discretion to change the Company Vehicle policy. With that discretion, the Executive Director decided to exclude himself from the vehicle use log requirement.

Internal controls are not effective if they can unilaterally be changed, as was the case with the DNA Company Vehicle policy. This change contributed to DNA charging unallowable costs to LSC grants and to their noncompliance with IRS requirements.

We recommend that the Executive Director:

Recommendation 6: Work with DNA's Board of Directors to eliminate the Executive Director's ability to make discretionary changes to the current DNA Company Vehicle policy.

Recommendation 7: Work with DNA's Board of Directors to update the DNA Accounting Manual to require Board of Director approval for all DNA policy changes.

DNA's Vehicle Use Logs were Incomplete

We reviewed DNA's vehicle use logs and found logging gaps for the company vehicles at two of the seven offices. One office had missing vehicle use logs for 10 months and another office for 14 months. LSC regulation 45 C.F.R. § 1630.5(a)(8) states that costs charged to LSC grants must be "Adequately and contemporaneously documented in business records accessible during normal business hours to…the Office of Inspector General…".

DNA management said the cause for the missing logs was an oversight. Without vehicle use logs to track business and personal use, DNA cannot differentiate allowable and unallowable costs (resulting from personal use), ensure that only allowable costs are charged to LSC grants, or ensure that personal use of the company vehicle is treated as a taxable fringe benefit.

We recommend that the Executive Director:

Recommendation 8: Update the company vehicle policy with a requirement that vehicle users maintain complete vehicle use logs, including date, time, and purpose of the trip.

Recommendation 9: Update the Company Vehicle Use policy to:

- Require documentation of monthly vehicle use log review, and
- Document the review to include the signature of the reviewer and the date of review.

Without Vehicle Logs DNA Cannot Determine the Amount of Unallowable Costs Associated with DNA Employee Personal Use

The DNA company vehicles were purchased at a total cost of $226,539, with LSC funds (specifically 2018 excess carryover funds). The previous and current DNA Company Vehicle policies both state that, "DNA's Executive Director will be assigned exclusive use of a vehicle to commute to and from work, for business use and reasonable personal use." Both the current and previous policies also allow employees to use company vehicles for personal use.

DNA did not provide us with complete vehicle use logs. The logs DNA maintained had time gaps and no logs were provided for the vehicle assigned to the Executive Director.

DNA's vehicle use process does not comply with section 45 C.F.R. § 1630.5. This regulation sets forth the criteria that govern whether costs can be charged to LSC grants. Costs charged to LSC grants must be actually incurred, reasonable, and allocable. In addition, 45 C.F.R. § 1630.5(a)(8) states that expenditures must be adequately and contemporaneously documented in business records and accessible during normal business hours to LSC Management, the OIG or other organizations authorized to conduct audits of the recipient. DNA's current and previous Company Vehicle policies do not require logging personal company vehicle use. Without vehicle use logs, DNA is unable to calculate unallowable vehicle expenses and charge them to unrestricted funds.

The Executive Director stated that he has the discretion to change the Company Vehicle policy and decided to eliminate the vehicle use log requirement. Management override of policies may lead to processing of transactions that are contrary to the grantee's internal control system and non-compliant with LSC regulations. Without logs, DNA cannot calculate the amount of personal portion of the vehicles' use to charge to an unrestricted account.

The OIG was unable to determine the amount of questioned cost associated with personal use of DNA's company vehicles. The total vehicle expenses for the audit period were $73,680. Of this amount, $140 was coded as unrestricted. The majority of vehicle expenses were coded to the "To Be Allocated" account and more than half was charged to LSC grants. We will therefore refer this issue to LSC Management for further review.

Cost Allocation

We found[6] that the DNA Accounting Manual does not comply with LSC documentation requirements, and that DNA did not follow its Cost Allocation Policy when performing cost allocations.

Due to lack of supporting documentation, we could not trace the cost allocation[7]process from beginning to end. Accordingly, we determined DNA's cost allocation process to be untestable. We cannot conclude that costs allocated to LSC grants comply with the requirement of 45 C.F.R. § 1630.5(f) and (g) or LSC Program Letter 18-2. This Program Letter states that, LSC expects recipients to have a reasonable written methodology for calculating each funding source's proportionate share of the recipient's indirect costs, to use the methodology to allocate costs among their funding sources, and to show LSC how they allocated their indirect costs across funding sources.

We concluded that DNA did not comply with 45 C.F.R. § 1630.5(c)(3) which states that, "Recipients must maintain accounting systems sufficient to demonstrate the proper allocation of costs to each of their funding sources." We also concluded that DNA did not comply with 45 C.F.R. § 1630(a)(8) which requires that costs are, "Adequately and contemporaneously documented in business records…".

DNA's Written Policies Over Cost Allocation Are Missing LSC Requirements

Based on our review of DNA's Accounting Manual, Cost Allocation Policy, we found that it does not fully comply with LSC requirements. The DNA Accounting Manual does not include any requirements for documenting cost allocation.

Additionally, DNA's Accounting Manual does not:

- Specify staff responsible for performing cost allocations;

[6] To evaluate the adequacy of DNA's cost allocation controls we reviewed their policies and procedures, conducted interviews, and attempted to perform a walkthrough of the Cost Allocation Process.

[7] Grantees incur indirect expenses that benefit more than one grant such as administrative salaries and benefits, space/rent, utilities, facilities maintenance. Cost allocation is the method used to distribute these indirect costs equitably among grants.

- Include a reconciliation process related to salaries and wages directly charged to LSC grants and contracts; and
- Include information on allocating credits.

The LSC Financial Guide, Section 3.7.5, requires that recipients apply credits, such as refunds of expenses that reduce costs charged to a grant, to the same fund from which the related costs were charged. Section 3.7.1 of the LSC Financial Guide states that, "Cost allocation is the cornerstone of non-profit financial management and reporting. LSC requires recipients to maintain accounting systems sufficient to demonstrate the proper allocation of costs to each funding source." Additionally, Section 3.7.1 requires, in part, that grantee cost allocation policies address the following:

- Who conducts the allocation and who performs the review,
- Documentation requirements to support the allocation (e.g., labor distribution report, personnel activity reports, calculation work papers), and
- Reconciliation process related to salaries and wages directly charged to LSC grants and contracts.

The DNA Operations Manager stated that their Accounting Manual will be updated to include the LSC Financial Guide requirements.

The DNA Accounting Manual does not include cost allocation documentation requirements. Without documentation we were unable to determine if the DNA cost allocations comply with LSC regulations and guidelines.

We recommend that the Executive Director:

Recommendation 10: Update the DNA Accounting Manual to include all LSC cost allocation requirements, including cost allocation documentation requirements.

DNA's Cost Allocation Methodology Was Noncompliant with the DNA Accounting Manual and Could Not be Tested Due to Lack of Documentation Provided to OIG

DNA was not performing cost allocations as required by their Accounting Manual. Due to missing documentation, we could not complete a walkthrough or test the grantee's cost allocation processes. The DNA Accounting Manual, Cost Allocation Policy, states that allocation will be performed monthly. We found that only one allocation was performed for the calendar year 2022. We also found that no allocations were performed for January or February 2023, as of the time of our review. DNA did provide a cost allocation spreadsheet for the first quarter of 2023, but the General Ledger provided for the audit did not include journal entries required for cost allocations.

We found the following deficiencies after reviewing DNA's cost allocations:

- DNA did not provide documentation to verify that non-LSC funding sources did not allow or limited indirect costs to be charged to their grants. LSC agrees to pay for allowable indirect costs if other grantors do not allow or limit indirect costs. This documentation would be found in DNA grant applications and grant award documents. Therefore, we could not determine compliance with LSC's Program Letter 18-2 (which provides guidance on the application of 45 C.F.R. § 1630.5(g)'s exception allowing the allocation of certain indirect costs). This same documentation from non-LSC funding sources that did not allow or limited indirect costs to be charged to the grants is needed to determine compliance with the LSC Accounting Guide, 2-3.2. LSC requires that indirect costs be allocated among funds on the basis agreed to by the applicable organization. Per DNA, the one cost allocation performed for 2022 used the number of cases by grant to allocate indirect costs. We could not verify if this was the basis DNA used in its grant proposals or that was agreed to in the grant award documents.
- Our review of the 2022 cost allocation spreadsheet revealed that allocation of indirect costs to some grants was based on the number of cases and to other grants based on the grants' direct costs as a percentage of total direct costs. Because no journal entries were prepared to charge allocated costs to each grant in the accounting system, we could not verify that the allocations on the spreadsheet were recorded in DNA's accounting system and used to prepare the 2022 Financial Statements. The LSC Accounting Guide, Section 3-5.9(c) states that common expenses should be allocated on the basis agreed to by the funding sources and the allocation formula should be adequately documented for the auditor and others to understand, follow, and test the formula.
- We did not receive supporting documentation, such as accounting system reports, to verify how the indirect expenses were allocated or if the allocation met LSC requirements for the period ending March 31, 2023. During our on-site work the Chief Financial Officer (CFO) tried to recreate accounting reports to support the cost allocation worksheet but was unable to do so. We also noted that DNA's Accounting Manual does not include a list of cost allocation documentation that must be maintained.
- The cost allocation methodology outlined in DNA's 2022 financial statements is not the same method(s) included in the DNA Accounting Manual or used on the 2022 cost allocation spreadsheet prepared by DNA. The financial statement notes states that other costs (not direct expenditures or payroll fringe costs), are "…allocated in the relationship the grant's or contract's revenue bears to the total revenue of all grants and contracts." This methodology does not agree with DNA's cost allocation policy, LSC requirements, or the DNA cost allocation spreadsheet.

We recommend that the Executive Director:

Recommendation 11: Update the cost allocation section of the DNA Accounting Manual to include and comply with all LSC requirements. The updates should include:

- A list of the supporting documentation to be retained for cost allocations; and
- A requirement that cost allocations are reviewed, and the reviews documented.

Recommendation 12: Along with the DNA Board of Directors decide whether DNA will allocate costs monthly or quarterly and update their Accounting Manual accordingly to include the timeframe within which the cost allocation must be completed.

Credit Cards

The OIG reviewed the grantee's written policies and procedures as well as practices to determine whether the processes over credit cards adhere to LSC regulations and guidelines.

We performed testing of a judgmentally selected sample of credit card activity, shown in the table below.[8]

Figure 2 – Summary of Credit Card Transactions Tested

Position Title	Number of Transactions	Amount
Executive Director	21	$10,299
Facilities Maintenance Manager	46	$2,479
Operations Manager	10	$2,704
Total	77	$15,482

We found unallowable purchases, lack of fund allocations for credit card purchases, and no documented evidence of oversight by the DNA Board of Directors over the Executive Director's credit card expenses. Our testing showed that DNA has inadequate processes for ensuring that only allowable expenses are funded with LSC dollars.

Executive Director Reconciles His Own Credit Card Expenses and Expenses Were Not Reviewed and Approved by the DNA Board of Directors

Our review found that DNA's Board President failed to review and approve all credit card transactions within our sample on a timely basis. The transactions were reviewed and approved on

[8] DNA has three credit card users for a general-purpose credit card. The cardholders are the Executive Director, the Operations Manager, and the Facilities Maintenance Manager. Our sample consisted of 77 transactions from nine months of credit card statements, three statements per user.

July 20, 2023, over a year after the credit card statement dates and only after the OIG brought the finding to the attention of DNA staff.

We also found that the Executive Director approved his own credit card reconciliations, contrary to DNA's policy which requires the Board President, Board of Directors, or a designated board member to review and approve all credit card transactions made by the Executive Director.

Lastly, we found that three of the Executive Director's credit card reconciliations that we selected for testing did not comply with LSC guidance in Program Letter 18-3. This Program Letter strongly recommends that the Executive Director's expense reports, credit card statements, and travel reimbursements should be approved by a member of the Board of Directors and not by a subordinate of the Executive Director or by the Executive Director himself or herself.

The Executive Director stated that not having review and approval of his credit card transactions was an oversight and added that the Executive Assistant's extended leave in 2022 contributed to the delayed submission of the Executive Director's credit card statements for the Board President.

Inadequate oversight of the Executive Director's credit card expenses may result in purchases being made without the knowledge of the Board of Directors or at unacceptable prices or terms.

We recommend that the Executive Director:

Recommendation 13: Work with the Board President to enhance or implement procedures to ensure that the Board President reviews, approves, and adequately documents their approval of the Executive Director's credit card expenditures with a signature and date.

DNA Was Unable to Provide Funding Allocations for Sixty-Seven Credit Card Transactions

DNA was not able to provide the funding allocations for 67 of the 77 sampled credit card transactions. These 67 transactions totaled $11,676. and were coded to a funding source titled, "To Be Allocated." We requested the final allocations for these transactions, and they were not provided.

DNA's inability to provide funding allocations point to a lack of controls. This may lead to funds being used for impermissible and unnecessary purchases and does not adhere to LSC guidelines.

The LSC Financial Guide, Section 3.7.1, states that:

> Cost allocation is the cornerstone of non-profit financial management and reporting. LSC requires recipients to maintain accounting systems sufficient to demonstrate the proper allocation of costs to each funding source.

The LSC Financial Guide, Section 3.7.1 also adds: "Overall, the recipient's cost allocation policy, procedures, and documentation must allow for third party review."

Although multiple requests were made, DNA staff was unable to provide the requested final funding allocations for the 67 transactions, totaling $11,676. In other areas reviewed during our audit, we found that no journal entries were prepared or posted to the general ledger, thus confirming that there could be no determination of how these transactions were allocated.

We recommend that the Executive Director:

Recommendation 14: Implement controls to ensure that entries for transactions are adequately referenced in the general ledger, and source documents are traceable to the general ledger. Grant codes should be coded in the accounting system and included with supporting documentation.

Thirty-Four Credit Card Transactions Are Considered Unallowable

Our testwork found that 34 of the 67 credit card transactions missing funding allocations were unallowable credit card transactions. These transactions were coded to the "To Be Allocated" fund, as mentioned in the section above. We made multiple requests for the specific funding allocations for these transactions and DNA did not provide the information. Based on DNA's cost allocation worksheets, the majority of the "To Be Allocated" costs were allocated to LSC grants.

Since the grantee was unable to provide documentation to determine the unallowable amount allocated to LSC, we are questioning all unallowable purchases in the amount of $929. These include two purchases for Board gifts, totaling $260, and 32 meal purchases, totaling $669.

Figure 3 - Unallowable Charges

Employee Title	Transactions	Unallowable Charges
Facilities Maintenance Manager	31	$604
Executive Director	3	$325
Total	**34**	**$929**

Meals and Board gifts are deemed unallowable expenses per LSC guidelines. According to the LSC Financial Guide, Section 3.7.3.a:

> LSC prohibits using LSC funds for meals and refreshments, except for courtesy coffee, tea, and similar beverages and minor refreshments as part of employee recognition events or major substantive work events, or when they are necessary costs of conducting trainings, fundraising events, Board meetings, and conferences. Barring these exceptions, LSC has determined that costs related to meals and refreshments are unreasonable and unnecessary for the performance of any grant or contract funded by LSC.

LSC Program Letter 22-4 further states that historically, costs determined to be unallowable by LSC have included flowers, alcohol, holiday cards, and gifts for staff, board members, and/or private attorneys such as cakes, shot glasses, or other promotional items or tokens of appreciation such as pens, t-shirts, or coffee mugs. However, some of these items such as flowers, cakes, and promotional items or tokens of appreciation may be allowable in certain circumstances, such as fundraisers or recognition events for volunteer attorneys.

DNA staff indicated that they were unaware that meal purchases were unallowable by LSC. Expenditures that are not reasonable and necessary under an LSC grant may be subject to questioned cost proceedings. We are questioning 34 transactions, totaling $929 since meals and Board gifts are deemed unallowable by LSC's criteria. While $929 is not necessarily a significant amount of money, nearly half of all tested expenses were not allowable, further supporting the need for an enhanced process or processes. We will be referring this amount to LSC Management for review and action.

We recommend that the Executive Director:

Recommendation 15: Implement a process to ensure that only LSC-allowable expenses are allocated to LSC, in accordance with LSC requirements and guidance.

Contracting

The OIG reviewed DNA's written policies and procedures as well as its practices to determine whether contracting processes comply with LSC regulations and guidelines and the DNA Accounting Manual.

As a result of our testwork,[9] we found that DNA's contracting processes are inadequate, and their practices do not fully comply with LSC regulations or with DNA's own policies and procedures.

DNA Policies and Procedures Did Not Adhere to LSC Criteria

We found that DNA does not have written procurement policies and procedures that require LSC approval for contracts exceeding $25,000. The grantee acknowledged the lack of policies and procedures and stated they are undergoing a process to update their Accounting Manual.

The grantee's policy and procedures do not adhere to the LSC Financial Guide, Section 3.5.2, which states:

[9] We judgmentally selected nine contracts based on type of service, high-dollar amount, frequency of payments, and vendor types, totaling $399,372.26, for review and testwork.

> A recipient using more than $25,000 of LSC funds to purchase or lease personal property, contract for services, or make capital improvements must obtain LSC's prior written approval…Recipients are required to request prior approval as soon as they reasonably expect the purchase or contract to exceed $25,000 in LSC funds; the request must include the items contained in 45 C.F.R. § 1631.8.

45 C.F.R. §1630.6(b) states**:** Costs requiring prior approvals (1) Without LSC's prior written approval, a recipient may not expend more than $25,000 of LSC funds on any of the following:

> (i) A single purchase or single lease of personal property;
> (ii) A single contracts for services;
> (iii) A single combined purchase or lease of personal property and contract for services;
> (iv) A single purchase of real estate; and
> (v) Capital improvements.

Adequate written policies and procedures over contracting help ensure that the contract procurement process follows all established procedures and LSC requirements.

We recommend that the Executive Director:

Recommendation 16: Update the DNA Accounting Manual to include procedures for obtaining LSC approvals when using more than $25,000 of LSC funds for contracts, purchases/leases of personal property, or capital improvements.

DNA Did Not Adequately Maintain Contract Documentation

The payments DNA made to the nine sampled contracts during the audit period totaled $399,372. Our review found that DNA's contracting processes and practices are inadequate, and do not fully comply with LSC requirements or with DNA's policies and procedures. Specifically, we found that the grantee did not store contracts in a central location and failed to maintain:

- Documentation, including contract modifications and updated contract terms, for two of the nine sampled contracts. This resulted in the grantee being billed and paying more than the obtained contractual amounts.
- Request For Approval forms[10] with the nine contracts we reviewed. For one sampled contract, we could not find any information to substantiate document approval. For the remaining eight sampled contracts, we were able to verify approvals through Board minutes

[10] Request For Approval forms are used for any request for professional services. Per DNA's Accounting Manual, the request must be forwarded to the Executive Director for processing. The request must contain the work to be accomplished, the recommended person or business to be utilized, the estimated contract amount, and the period to be covered by the contract.

and signatures on the contracts. However, none of the nine included the Request For Approvals as part of the grantee's process.

- Documentation of competitive bidding process or sole source justifications[11] for three sampled contracts. Of the nine sampled contracts, six contracts required competitive bidding; three of those six contracts lacked documentation of a competitive bidding process or, in the absence of such a process, sole source justification.

DNA staff stated that their record retention policy, included in the DNA Accounting Manual, requires storing proposals, bids, and other contract information for three years. However, we found this policy to be inadequate for contracts that are still active, or that were active during the audit period.

The grantee also stated that contracts were stored in a cloud-based account; however, they lost access to that account.

DNA did not follow the LSC criteria for maintaining contracting documentation. Specifically, the LSC Accounting Guide, Section 3-5.16, states:

> The process used for each contract action should be fully documented and the documentation maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that the deliverables are completed.

Additionally, DNA's practices did not align with LSC's 2022 and 2023 Grant Terms and Conditions, 7. Governance and Programmatic Requirements, Records Management, which state that the grantee should establish a Records Management Policy that includes a record retention and disposal schedule; the following types of records must be retained:

> original financial records and supporting documentation (or digital images of originals unless otherwise required by applicable law) sufficient for LSC to audit and determine whether the costs incurred and billed are reasonable, allowable and necessary under the terms of the grant, as prescribed by the Accounting Guide for LSC Recipients (2010 ed.), Appendix II / LSC Financial Guide, Section 2.3 and any subsequent reiteration.

Proper documentation ensures that payments made to individuals or vendors are appropriate and supported by approved and active contracts. Documentation also ensures that the approved contract was awarded and monitored in accordance with established procedures. Without the proper approval, the grantee could enter into improper contracting actions and be subject to questioned cost proceedings.

[11] DNA's threshold for competitive bidding and sole source justifications are for services over $10,000.

We recommend the Executive Director:

Recommendation 17: Implement procurement documentation procedures ensuring that required documents — including but not limited to: request for approvals, competitive bids and quotes, sole source justifications, and documentation of any deviation from the procurement process — be centrally located and readily accessible. This includes all active contracts and contracts that are expired but preserved according to the record retention policy.

Recommendation 18: Update the DNA Accounting Manual to require that contract documents must be maintained in a central file according to the record retention policy post expired contract terms.

Recommendation 19: Establish and maintain a proper recordkeeping system that enables DNA to maintain contract files and perform regular backups of electronic records and systems stored offsite or in a virtual environment with easy-to-use restoration options.

The OIG Was Not Able to Determine Whether Contract Deliverables for Accounting Services Were Received

DNA contracted with an accounting firm from July 25, 2018, through December 31, 2022, because they were unable to hire a qualified candidate for the Director of Finance position, which had been vacant for more than a year. During the audit period, the grantee paid $158,820 for contract accounting services, of which none were allocated to LSC,[12] according to the grantee.

As part of our testwork, we compared invoices and grantee payments to the accounting services contract terms and conditions and any addendums to that contract. Per the accounting services contract addendum, added on September 1, 2018, DNA was to be billed at a blended rate[13] of an additional $150/hour for reconciliation services.

In our review of Client Trust Funds, we found that bank reconciliations had not been performed in the Accounting System since 2017. There was no supporting documentation for reconciliations, other than an Excel spreadsheet maintained by the current CFO, for the years 2022 and 2023.

We could not determine whether the grantee was billed for the reconciliation process because the accounting firm's invoices were not itemized by services performed or hourly billing rates.

[12] DNA received LSC approval in 2018 to use $127,360 in LSC funds for one year (per Section 3.5.2 of the LSC Financial Guide, LSC approval is required for expenditures of LSC funds exceeding $25,000). However, DNA's records demonstrate that they did not expend more than $25,000 of LSC funds over the entire span of the accounting services contract (from 2018 to 2022) in which the grantee expended a total of $743,501.

[13] The contractor's responsibilities were preparing, reviewing, and posting reconciliation support. The total $150 blended hourly rate was based on $130/hour for the supervisor, $155/hour for the manager, and $210/hour for a senior manager.

According to DNA staff, the accounting firm's invoices only included the total amount billed and the grantee relied on the details in the contract to approve payments. The current managerial staff did not take accountability for overseeing the work performed by the accounting services contractor, as the contract predated their hiring. Per DNA staff, the accounting services contractor reported to the Executive Director.

DNA's internal controls for contract oversight and contract invoice and payments did not follow LSC criteria or DNA policies and procedures listed below:

- The LSC Accounting Guide, Section 3-5.4 (a) Invoice and Receipt Verification states that, "The receipt of goods and the accuracy of invoices should be verified and documented…Verification procedures to validate, among other things, vendor numbers, quantities, and amounts should be reviewed."

- DNA's Accounting Manual, Contracts for Professional Services, requires that, "Any invoice received from the contractor will be reviewed by the supervisor requesting the contract to ensure accuracy of the invoice prior to processing for payment. If the contract amount is exceeded, the 'Accountant I' will forward this information to the Executive Director. A check will not be issued to the Contractor unless a fully signed contract is on file or until an amendment to the Contract has been issued and signed by the Executive Director."

Based on this contract, our findings indicate inadequate procedures related to invoicing and billing. Without adequate internal verification of services rendered and invoices billed by contractors, cash may be disbursed for goods and services not received, in advance of receipt, or in the wrong amount.

We recommend the Executive Director:

Recommendation 20: Implement procedures to ensure that invoices are itemized according to the terms of the contract before payment is disbursed.

- DNA should be able to verify the total amount that is billed for services and confirm the deliverables received.
- Additionally, DNA should adhere to their own written policies and procedures to ensure the supervisor requesting the contract verifies the accuracy of the invoice prior to processing payment.

Recommendation 21: Obtain information from the accounting services contractor and conduct a review to determine if they were billed for reconciliation support services that they did not receive during the audit period and recoup any such expenses.

Derivative Income

We reviewed DNA's derivative income policies and procedures and performed testwork to determine compliance with applicable LSC regulations and guidance. DNA reported derivative income during the audit period from attorney fees (totaling $10,000) in addition to rental income (totaling $5,700) per the audited financial statements fiscal year end 12/31/2022. Additionally, DNA did not receive interest income for the audit period but reported a loss on interest income.

We found that DNA's processes over allocating and recording derivative income are inadequate and did not comply with LSC criteria.

DNA Misclassified Rental Income Received During the Audit Period

DNA recorded derivative income totaling $8,000 for rental income during the audit period. Per their general ledgers, DNA allocated or allotted $6,000 to LSC for their portion and $2,000 to the unrestricted fund. However, during our review, we found that the correct rental income received for the period totaled $7,500 which is the portion of rental income that should have been allocated to LSC. Compliance with 45 C.F.R. § 1630.17(a) ensures that LSC receives an equitable share of derivative income, which the recipient can use to provide legal services to eligible clients.

The OIG found the following:

- DNA misclassified $2,000 of payroll deductions for an employee's portion of utilities, based on personal use,[14] as rental income. We found this to be improper recording as the payroll deductions should not be classified as rental income for the grantee resulting in a $2,000 deduction from the total recorded. This amount should have been recorded as a credit to the utilities expense account.
- DNA misclassified $1,500 of rental income as a credit to the Rent-Building General Ledger Account. This resulted in reducing the Rent-Building expense by $1,500 rather than being properly allocated to LSC as rental income. Adding this amount to the $6,000 after reducing $2,000 for the payroll deductions, the LSC portion of rental income should have totaled $7,500.

DNA did not follow the LSC guidance and regulations on allocation of derivative income outlined below:

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[14] In 2017, DNA sold a used trailer to an employee; post-sale DNA and the purchaser/employee entered into a verbal agreement to deduct $50 per pay period from the employee's salary in exchange for the trailer to remain connected to the DNA building for utility access. The verbal agreement expired in August 2023, and the trailer is no longer connected to the DNA building.

- 45 C.F.R. § 1630.17(a) states that, "Derivative income resulting from an activity supported in whole or in part with LSC funds shall be allocated to the fund in which the recipient's LSC grant is recorded in the same proportion that the amount of LSC funds expended bears to the total amount expended by the recipient to support the activity."
- The LSC Financial Guide, Section 3.1.4, states, "In the event a recipient earns derivative income through the use of a combination of LSC and non-LSC funds, the recipient is required to record LSC's proportional share of the derivative income as additional annualized LSC grant revenue. LSC's proportional share is the ratio of LSC funds to total funds expended to support the activity."

DNA stated that they were not aware of these misclassifications and that it was an error on their part. DNA stated that moving forward they will perform the proper allocations and general ledger classifications.

Inadequate maintenance of the general ledger may weaken control over overall operations.

The OIG is questioning $1,500 related to rental income not allocated to LSC and will refer the amount to LSC Management for review and action.

We recommend the Executive Director:

Recommendation 22: Implement procedures to ensure adequacy of allocations and general ledger classifications.

DNA Improperly Allocated Attorney Fees

DNA received $10,000 of derivative income from attorney fees and allocated them to LSC and other contracts/funding sources. However, we found that DNA did not perform the proper allocations.

The case totaled 103.1 hours which were allocated by time amongst three funders to ensure each funder was allotted their respective share of hours on the case. The hours contributed to the case by the funder in turn will be the basis for which the attorney fees are contributed to. We noted that the staff attorney recorded 1.5 hours to LSC, which is 1.45% of the total hours contributing to LSC's percentage of the case, but the attorney fees received were not allocated by that percentage to LSC. This resulted in $145 not being allocated to LSC according to policy and regulations.

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

DNA policy states:

> Staff members working on that case will record their time contemporaneously and indicate the funding source paying for their time. At the time Attorney Fees are awarded and paid, staff will prepare a report of total hours worked on the case by funding source. A calculation of hours by funding source will be made and the Attorney Fees will be allocated to each funding source paying for the case in the same percentage as hours worked.

DNA was unaware that the allocations were not done per LSC regulations or per grantee policies and procedures—which indicates that DNA lacks adequate review procedures. The grantee stated the incorrect allocations were errors on their behalf.

Compliance with 45 C.F.R. § 1609.4(b) ensures that LSC receives an equitable share of derivative income which the recipient can use to provide legal services to eligible clients. The OIG is questioning $145 related to the improper allocation of attorneys' fees and will refer the amount to LSC Management for review and action. While $145 is not a material monetary value, the findings from our review further support the need for enhanced procedures to ensure proper allocations.

We recommend the Executive Director:

Recommendation 23: Implement procedures for adequate review of case timekeeping to ensure the proper allocation of attorney fees.

General Ledger and Financial Controls

We found[15] that DNA's General Ledger and Financial Controls are inadequate, and the DNA Accounting Manual needs to be updated to meet LSC requirements.

Specifically, we found lack of segregation of duties over cash receipts and deposits, inadequate processes over petty cash and bank reconciliations, and unallowable costs charged to LSC grants.

DNA Accounting Manual Needs to be Updated to Comply with LSC Requirements

The DNA Accounting Manual does not include guidance on accounting for unallowable costs. In the Disbursement, Credit Card, and vehicle testing sections we found that DNA charged unallowable costs to the "To Be Allocated" account. Most of this account is allocated to LSC grants.

[15] To evaluate whether DNA had adequate general ledger and financial controls, we reviewed their policies, conducted interviews, and performed testwork on a sample of bank reconciliations, Petty Cash Fund Reports, and cash receipts. DNA has four bank accounts, excluding client trust accounts. We selected two of the four bank accounts, to test cash receipts and bank reconciliations. The cash receipts and bank reconciliations were tested for three months within the audit period (tested a total of six bank statements). Per DNA policy each office is required to prepare a Petty Cash Fund Report every month. We tested three months of Petty Cash Fund Reports.

The LSC Financial Guide, Section 2.1.1.a, says that recipient accounting systems must have the ability to identify and address unallowable costs.

The DNA Accounting Manual does not include information or guidance about unallowable costs. During interviews, the CFO stated that unallowable costs are recorded to unrestricted funds.

DNA is updating its Accounting Manual to comply with LSC requirements.

Written policies and procedures — reinforced with staff training — serve as a method to document the design of controls and adequately communicate them to staff. Implicit and unwritten policies or procedures often lead to misunderstandings and less than efficient operations.

We recommend that the Executive Director:

Recommendation 24: Update the DNA Accounting Manual to include a section on costs that are unallowable per LSC regulations, including how to identify and address unallowable costs.

Recommendation 25: Provide training on identifying and recording unallowable costs to DNA accounting staff and any other personnel responsible for approving purchases or disbursements.

DNA Has Insufficient Segregation of Duties in the Areas of Bank Reconciliations, Cash Receipts, and Cash Deposits

The OIG found the following issues with DNA's segregation of duties related to bank reconciliations and cash receipts and cash deposits:

- **Bank Reconciliations.** The CFO stated that he performs bank reconciliations, excluding those for the client trust accounts. The CFO has full access to the DNA Accounting System and prepares, enters, and posts journal entries. The DNA Accounting Manual, states that, "The Operations Manager or designee will be responsible for reconciling the investment and bank accounts to the General Ledger monthly." The Operations Manager is authorized to initiate electronic bank transactions, disburse funds, acknowledge receipt of funds, transfer funds, review the corporate banking accounts, and perform bank reconciliations and also has full access to the DNA Accounting System.

  The DNA bank reconciliations performed by either the CFO or by the Operations Manual do not comply with LSC requirements and, according to the LSC Accounting Guide, neither should perform bank reconciliations. Specifically, according to the LSC Accounting Guide, Appendix VII,[16] Section J. 4(a), the duties of the person preparing bank reconciliations should exclude posting to the books of account. The LSC Financial Guide, Section 3.2.1.c states that

[16] This appendix provides a checklist of guidelines for grantees to utilize when developing and/or revising accounting procedures or internal controls.

monthly bank reconciliations must be performed by a person who has no access to cash, who is not a regular check signer, and has no cash bookkeeping duties.

- **Cash Receipts and Cash Deposits.** The DNA Executive Assistant opens the mail, prepares the daily cash receipts log form, and takes deposits to the bank. Our testing found that none of the tested cash receipt log forms included evidence of review by another DNA employee, even though DNA's forms have a place to formally document a review. The DNA segregation of duties spreadsheet indicates there is supposed to be a review of the cash receipts form, but we found no evidence that this is being done. Without a documented review of the cash receipts form, there is no way to tell if segregation of duties exists for cash receipts. Also, DNA's practice is in contrast to the LSC Accounting Guide, Appendix VII, Section J. 3, which states that the person who opens the mail should not prepare the bank deposit.

  During interviews we learned that the CFO takes deposits to the bank, performs the bank statement reconciliations, and prepares and posts journal entries. The CFO making deposits is contrary to LSC requirements that the person performing bank reconciliations should have no access to cash.

DNA's current policy and practices do not create segregation of duties. The LSC Financial Guide, Section 2.5.2.b states that, "The bedrock of an effective system of internal controls is the segregation of duties. Duties of individuals must be divided to minimize the potential for collusion, perpetration of irregularities, or falsification of the accounts."

DNA did not provide a cause as to why the policy, was written in a way to allow a lack of segregation of duties to occur in practice. During the audit DNA did state that the Accounting Manual would be updated to comply with LSC regulations.

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to staff. Implicit and unwritten delegations of authority often lead to misunderstandings and less than efficient operations.

We recommend that the Executive Director:

Recommendation 26: Update the DNA Accounting Manual to assign bank reconciliation duties ensuring segregation of duties so employees who initiate or transmit electronic transactions, have no access to cash, are not check signers, and have no bookkeeping duties.

Recommendation 27: Establish adequate segregation of duties to:

- Ensure cash receipts procedures require that two employees open the mail, and
- Ensure the cash receipts log is signed and dated by the preparer and the reviewer.

Recommendation 28: Establish adequate segregation of duties to ensure employees who take deposits to the bank:

- Are not involved with opening the mail or recording cash receipts, and
- Do not have access to the DNA Accounting System.

DNA's Processes Over Bank Reconciliations Do Not Comply with the DNA Accounting Manual or LSC Requirements

We tested a total of six bank statements (three months of reconciliations for two bank accounts) and the reconciliation documentation and found:

- None of the reconciliations were signed and dated by the preparer.
- None of the reconciliations included evidence that the Operations Manager or Executive Director reviewed them.
- Two of the six reconciliations included checks outstanding over three months as shown below. The outstanding checks from the August 2022 reconciliation were still outstanding as of the March 2023 reconciliation.

Figure 4 - Outstanding Checks Greater than Three Months

Month	Number of Outstanding Checks	Dollar Amount of Outstanding Checks
August 2022	2	$938
March 2023	8	$3,200*

*Note: The checks outstanding in August 2022 were still outstanding in March 2023.

DNA's inadequate processes over the bank reconciliation process do not comply with the following DNA Accounting Manual or LSC guidance.

DNA's Accounting Manual, Bank Reconciliations, Procedure, states:

- Banks [sic] will be reconciled no later than fifteen (15) working days after receipt.
- Stale dated (more than 3 months old) checks, which are still outstanding, will be voided in the system and a Stop Payment will be placed as appropriate.
- Completed reconciliations will be returned to the Operations Manager or Executive Director for review and approval. The review process will require the initials of the preparer and reviewer as well as the dates of the reconciliation and review.

The LSC Accounting Guide, Section 3-5.2(d), states:

> Bank statements shall be reconciled monthly to the general ledger by a person who has no access to cash, who is not a regular check signer, and has no cash bookkeeping duties. The reconciliation shall be reviewed and approved by a responsible individual. Such review shall be appropriately documented by signature and date.

The LSC Financial Guide, Section 3.2.1.c, requires that bank reconciliations be performed on a timely basis after the close of each month by an individual who does not initiate or transmit electronic transactions, has no access to cash, is not a check signer, and has no bookkeeping duties. This section of the LSC Financial Guide also notes that the preparer must document the reconciliation (with their initials or signature, and the date the task was performed) as bank reconciliations must contain a clear indication of review and approval by management, evidenced by signature or initials and date. Additionally, any checks identified as outstanding for six months or more must be investigated and resolved.

DNA staff stated that they are in the process of changing their checks to indicate that they are automatically void after 90 days, which is the timeframe identified in their Accounting Manual.

DNA lacks proper reconciliation procedures to ensure compliance with requirements. Without proper reconciliation procedures, irregular activity and recording errors may not be detected on a timely basis. Failure to monitor and timely resolve outstanding checks may result in undetected fraudulent signatures, alterations of checks, or an inaccurate bank balance.

We recommend that the Executive Director:

Recommendation 29: Implement procedures to ensure that bank reconciliations are signed and dated on the date the reconciliation was performed and the bank reconciliation review was performed and documented.

Recommendation 30: Ensure that outstanding checks are investigated and resolved within 90 days, according to the grantee policy.

DNA Is Not Following Its Petty Cash Procedures or LSC Petty Cash Requirements

Based on our testing[17] of the Petty Cash Reconciliation Forms provided and our review of the Petty Cash General Ledger Account, we found that DNA is not following its Petty Cash Policy. There were only two replenishments during our audit period (one on July 1, 2022, and one on February 15, 2023)

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[17] We requested Petty Cash Reconciliation Forms for each of seven offices for three months, for a total of 21 forms. Per the LSC Grantee Profile, DNA's main office is located in Window Rock and there are six branch offices. DNA stated that two offices from which we requested Petty Cash Reconciliation Forms do not have Petty Cash Funds. As a result, we received and tested a total 15 Petty Cash Reconciliation Forms (three months of reports for the five offices).

indicating that the petty cash funds are rarely used. Some Petty Cash Reconciliation Forms were completed incorrectly. The Petty Cash Reconciliation Forms showed that some expense replenishments were not made in a timely manner. The Window Rock Petty Cash Reconciliation Forms show cash on hand of approximately $14 and receipts not reimbursed of approximately $60 from the August 2021 reconciliation through the March 2023 reconciliation.

- One office had not performed reconciliations for 15 months.
- Two reconciliations were not signed by the appropriate reviewers.
- Three approved reconciliation forms did not reconcile yet were approved.
- Two offices' reconciliations included repeated outstanding replenishments.
- The general ledger shows petty cash fund balances for three closed offices (Crownpoint, Monument Valley, and Shiprock). These offices were closed by December 2017.
- There are discrepancies between the Petty Cash General Ledger Account balance and the amounts on the Petty Cash Reconciliation Forms for four offices. The DNA Accounting Manual, states that the petty cash fund limit for each office is $75.00 The Petty Cash Reconciliation Forms we received all show the "Approved Petty Cash Fund Amount" to be $75.00. However, the General Ledger Balances in each office were as follows:
    - Farmington $50.00
    - Chinle $50.00
    - Tuba City $60.00
    - Flagstaff $20.98

The DNA Accounting Manual, Petty Cash Policy states that each office's petty cash limit is $75. All Petty Cash Reconciliation Forms should be reviewed and approved by the Executive Director or Managing Attorney, as evidenced by signature and date.

The LSC Financial Guide, Section 3.2.5, requires recipients that maintain a petty cash fund to adopt written petty cash policies and procedures; the policies must require monthly reconciliation of all petty cash funds, including confirming actual cash balance against the records. Additionally, this section requires that petty cash be maintained in a general ledger account reserved for petty cash, which is periodically funded up to a fixed amount.

DNA's former Executive Assistant did not prepare the Window Rock Office Petty Cash Reconciliation Forms for September 2021 through December 2022. Based on our observations, it also appears that staff need training on how to prepare and review the monthly reconciliation report.

Without proper management and internal controls, the petty cash account significantly enhances the risk of fraud, waste, or abuse. An effective alternative to having petty cash funds is to use purchase cards for small items. In fact, per the LSC Financial Guide, Section 3.2.4.c, LSC encourages the use of purchase cards "…to minimize the administrative burden related to the use of petty cash funds and reduce the risk of fraud."

We recommend that the Executive Director:

Recommendation 31: Discuss with the DNA Board of Directors whether DNA should maintain petty cash funds or implement a Purchase Card to replace petty cash funds.

Recommendation 32: If DNA continues using petty cash funds:

- Update the DNA Accounting Manual to comply with the requirements in Section 3.2.5 of the LSC Financial Guide,
- Correct its general ledger to show the accurate petty cash fund balance by office,
- Eliminate the balances for closed offices,
- Make outstanding replenishments and
- Provide training to applicable DNA staff (Petty Cash Custodians, Petty Cash Reviewers, and DNA Accounting Personnel).

Disbursements

To evaluate the adequacy of DNA's controls over disbursements, we reviewed policies and procedures, conducted interviews, and performed testing of a sample of 80 disbursements,[18] totaling $485,318.

We also reviewed DNA's check register for completeness and accuracy, including missing check numbers and voided checks.

In reviewing DNA's written policies, we determined that the policies do not fully comply with the LSC Financial Guide. During testing, we identified that DNA's policies did not have a fund allocation process for disbursements.

DNA's Written Policies Over Disbursements are Missing LSC Requirements

The OIG noted that DNA's written policies over disbursements do not fully comply with the LSC Financial Guide as detailed below:

[18] We used a random and judgmental sampling methodology to select the disbursements.

- DNA does not have a written policy prohibiting checks made payable to cash.
- DNA does not have a written policy detailing what local travel is reimbursable.
- DNA's Travel Advance policy does not state the limit an employee is permitted to request for a travel advance.

DNA's written policies over disbursements do not fully adhere to LSC's Financial Guide. The LSC Financial Guide, Section 3.2.4 requires that at a minimum, recipients have a policy prohibiting checks made payable to cash.

The LSC Financial Guide, Section 3.2.4.b.i, requires grantees to have detailed local travel policies; Section 3.2.4.ii requires recipients who allow travel advances to have a travel advance policy that, in part, includes how much an employee is permitted to request.

In interviews, DNA staff stated that they do not allow checks to be made payable to cash. DNA staff stated that they have a very broad travel policy that covers the travel needs of the organization. DNA staff communicated that they would update their Accounting Manual to address the LSC updated travel advance requirements.

Implicit, unwritten procedures often lead to misunderstandings and less than efficient operations.

We recommend that the Executive Director:

Recommendation 33: Update the DNA Accounting Manual and Employee Manual, as required, to include:

- A policy prohibiting checks made payable to cash.
- A local travel policy with the elements required by the LSC Financial Guide.
- The LSC Financial Guide requirements for travel advances.

DNA Was Unable to Provide Funding Allocations for Thirty-One Disbursements

The OIG's disbursement sample consisted of 80 disbursements. We were not able to determine funding allocations for 31 disbursements with invoices totaling $136,041. DNA recorded these transactions to a funding code labeled "To Be Allocated." We requested specific funding allocations for these disbursements; however, DNA was not able to provide that information.

DNA's inability to provide funding allocations does not adequately comply with the LSC Financial Guide, Section 3.7.1, which states that "Cost allocation is the cornerstone of non-profit financial management and reporting. LSC requires recipients to maintain accounting systems sufficient to demonstrate the proper allocation of costs to each funding source." This Section adds, "Overall, the recipient's cost allocation policy, procedures, and documentation must allow for third party review."

DNA staff were unable to provide the specific LSC funding allocations requested by the OIG. In other areas of review, we found that no journal entries were prepared or posted to the general ledger, thus preventing us (and, likely, any third party) from determining how these transactions were allocated.

The inability to trace funding may lead to funds being used for impermissible and unnecessary purchases.

We recommend that the Executive Director:

Recommendation 34: Implement controls to ensure that entries for transactions are adequately referenced in the general ledger, and source documents are traceable to the general ledger. Grant codes should be coded in the accounting system and included with supporting documentation.

Budgeting and Management Reporting

We performed testing over DNA's budgeting and management reporting to determine whether adequate controls exist and to determine whether their budgeting and management reporting adheres to LSC requirements and DNA written policies and procedures.

We found that the grantee practices did not adhere to LSC criteria.

Management Reports Were Not Prepared According to LSC Criteria and Grantee Policy

We reviewed five quarterly management report packages and found DNA does not follow their written policies and procedures, the LSC Accounting Guide, or the LSC Financial Guide to prepare monthly management reports. We found the following deficiencies with DNA's internal management reports processes:

- We found that DNA does not prepare monthly management reports and instead, prepares quarterly management reports. Additionally, DNA's Accounting Manual, Management Reports, states that the Operations Manager will prepare a Statement of Cash on Hand on a quarterly basis. However, LSC requires this statement to be prepared monthly.
- DNA did not observe a standard quarterly schedule or a consistent time interval when preparing "quarterly" management reports. As detailed further in Figure 5 below, grantee's Q1 monthly management report did not include the month of March:

Figure 5 – Variance for Quarterly Reports

Quarter	Month End Date for Quarterly Reporting	Variance
Quarter 1: January, February, March	Reported through February 28, 2022	One month - March
Quarter 2: April, May, and June	Reported through May 31, 2022	One month - June
Quarter 3: July, August, September	Reported through July 31, 2022	Two months -August and September
Quarter 4: October, November, and December	Reported through October 31, 2022	Two months- November and December,

- We could not determine if the five sampled quarterly reports were submitted to management prior to Board review because there was no documentation of management review.
- Two of the five sampled quarterly reports lacked transmittal memos documenting when they were sent to the Board. As a result, we could not determine when these management reports were sent to the Board, which could hinder their ability to fulfill governance responsibilities as DNA's oversight body.
- All five of the quarterly report packages reviewed lacked Funding Source Budget vs Actual reports, as required by LSC.
- The grantee did not prepare Statement of Cash on Hand reports for four of the five sampled quarterly report packages, as required by LSC.

The LSC Accounting Guide, Section 3-5.9, states that the director should receive a monthly management report within a prescribed number of days after the month-end.

The LSC Financial Guide, Section 2.6, states:

> Recipients must prepare monthly management reports timely with management and Board review. Recipients should have policies that document the exact types of reports they consider necessary for their operations and their internal management reporting process; however, LSC requires the following reports:
>
> 1. Total Program Budget vs. Actual – provides monthly and year-to-date budget vs. actual that identifies and explains variances.

2. Funding Source Budget vs. Actual – provides monthly and year-to-date budget vs. actual that identifies and explains variances by funding source.

3. A monthly statement of cash on hand.

DNA's Accounting Manual, Management Reports, stipulates monthly reports are to be submitted to the Management staff, by the 15th working day following the end of the month, or as soon thereafter as reasonably possible. These monthly reports should include, at a minimum, a Balance Sheet and a Statement of Revenues and Expenses, showing Funding Source, Budget, Actual and Variances.

According to DNA management, they were in the habit of preparing monthly reports that were reviewed by the Executive Director. However, due to a great deal of turnover as well as the COVID-19 pandemic, the grantee has been preparing management reports on a quarterly basis since 2019.

According to DNA management, they operate on the deadline given by the Executive Director. DNA management stated that the CFO prepares reports monthly for Executive Director review, but that report is not given to management for review. DNA plans for the CFO to provide the reports to managers and the same reports will be given to the Executive Board.

Untimely management reports may result in erroneous decision-making on the part of management and the Governing Body. The lack of such reports may also allow budgetary problems to go unnoticed. Additionally, adequate written policies and procedures over management reporting and budgeting ensure the procedures adhere to LSC criteria and reports are prepared adequately.

We recommend that the Executive Director:

Recommendation 35: Strengthen procedures over management reporting and budgeting to ensure that:

- Procedures are implemented to prepare monthly management reports for management/director review by the required due date.
- The required LSC reports are prepared, including monthly Funding Source Budget vs Actual reports.

Recommendation 36: Update the DNA Accounting Manual to include a Statement of Cash on Hand as a required monthly report.

Budgets Were Not Prepared In Accordance with LSC Requirements and DNA's Policy

We found that the 2022 and 2023 budgets were not prepared as required by LSC requirements or as written in the DNA Accounting Manual.

Budgets are to be prepared annually by location, funding source and program, detailing expected revenue, and personnel and non-personnel expenditures. Yet, the sampled budgets within our audit scope did not include location or funding source/program detail.

In addition, we could not determine whether the fiscal year 2023 budget was approved prior to the start of fiscal year 2023, or even formally approved at all. We confirmed that the budget was provided to the Board for review. However, the Board minutes do not include documentation that a motion was made to approve the budget.

DNA's policies and procedures over preparing the annual budget did not adhere to the following LSC requirements nor its own requirements:

- The LSC Accounting Guide, Section 3-5.1 states "The annual budget of the program should be approved by the program's governing body or its finance/audit committee, reviewed in detail by the finance/audit committee of the governing body, and reviewed and approved by the governing body as a whole."
- Additionally, the LSC Accounting Guide, Section 3-5.10, advises that the budget should be built from cost center/function and "rolled-up" to create the total budget. Schedules should document the assumptions made in arriving at the final cost center/functional budgets.
- DNA's Accounting Manual, Annual Budget Preparation, states that a budget will be prepared annually by location, funding source, and program; the budget will detail expected revenue, personnel, and non-personnel expenditures. The budget will be presented to the Board of Directors prior to the beginning of the new fiscal year for approval.

The CFO stated that there are multiple assignments that he has not gotten around to cleaning up since his start date in August 2022. When these findings were brought to DNA Management's attention, the CFO stated they can have the budget fully documented by location, funding source, and program; the budget can also detail expected revenue, personnel, and non-personnel expenditures as shown in the schedules that were prepared.

Budgeting and projecting are the key tools that should be used by management to adequately control and plan program expenditures. They are also critical tools for promoting accountability for appropriate and effective use of resources and ensuring transparency to funders. Without careful planning for available financial resources goals and priorities, the fiscal integrity of the recipient and essential program goals may be jeopardized.

We recommend the Executive Director:

Recommendation 37: Implement procedures to ensure that budgets are prepared and approved by the Board prior to the start of each fiscal year. Also, ensure that there is documentation of Board approval.

Recommendation 38: Ensure the budget is fully documented by location, funding source and program, as stipulated in the DNA Accounting Manual.

Payroll

Our review of DNA's written payroll policies and procedures found that the DNA Accounting Manual is adequate and complies with LSC regulations. We selected a sample of employees and pay periods to determine if DNA had adequate controls over payroll processes.[19]

During our review, we found that there is not an independent and documented review of payroll, specifically the payroll register, prior to processing.

Payroll Registers Were Not Reviewed Prior To Processing and Segregation of Duties Involving Payroll Processing Was Lacking

We found that there is not an independent and documented review of the payroll register prior to processing. We found no signature and date or other notation indicating the payroll registers were reviewed. Furthermore, those responsible for payroll review are also responsible for processing payroll. This resulted in a lack a segregation of duties.

DNA's payroll processing procedures do not adhere to the LSC Financial Guide as detailed below:

The LSC Financial Guide, Section 2.2.2, states the following:

> Recipients must conduct a thorough review of each payroll before processing to verify hours, rates, or other bases of payment by reference to attendance records, employment authorizations, approved rate changes, etc. by someone not connected with the preparation or distribution of the payroll…Throughout the payroll process, recipients are responsible for maintaining evidence of review (e.g., payroll register, labor cost distribution report, timekeeping reports).

During our July 2023 on-site visit, DNA's Operations Manager told us that she reviews the payroll register; however, her review was not documented.

In response to the lack of segregation of duties, the DNA's Operations Manager stated that on a biweekly basis the former accounting contractor and/or our CFO:

[19] We judgmentally sampled 9 of 54 active employees, and 2 former employees. Additionally, we selected three pay periods for review.

- independently reviewed the payroll registers for content and accuracy;
- reconciled the payroll disbursements and payroll cost distributions by fund and cost center; and
- input payroll in the accounting software system.

However, the Operations Manager's explanation was not provided during in-person interviews and was only provided after the segregation of duties issue was brought to DNA's attention. During our site visit, we were not told that the CFO was part of the payroll register review process, besides processing the financial portion.

Separation of duties is essential to safeguard assets against unauthorized use. It is an essential component of internal controls.

We recommend that the Executive Director:

Recommendation 39: Implement procedures to ensure that an individual independent of the preparation or distribution of payroll, reviews payroll prior to processing. Additionally, ensure that this review is documented by signature and date.

Client Trust Funds

We performed a review of DNA's policies and procedures related to their client trust accounts.[20] To determine whether adequate controls exist, we interviewed management, performed a review of the client trust account's reconciliation, disbursements, and receipts process to ensure adequate controls exist. As a result, we found that DNA's client trust reconciliations processes need strengthening.

DNA Did Not Prepare Monthly Client Trust Bank Reconciliations

We found that DNA did not prepare monthly reconciliations within the accounting system. Additionally, the grantee did not adhere to the full reconciliation procedures stipulated in their Accounting Manual.

- During the OIG site visit, the CFO performed the reconciliations for the years during the audit period (2022 and 2023) which was outside of the accounting system and outside of the scope of when they should have been performed. Additionally, from 2018 to 2022, reconciliations were part of the accounting services contractors' responsibilities until the transition of the new CFO. Due to DNA's lack of oversight over the accounting services

[20] Client trust accounts are used for funds received from or on behalf of a client. LSC requires a separate escrow bank account be opened and designated solely for client trust funds. DNA maintains two client trust accounts for the receipt of these funds.

contractor, we could not determine if the grantee was billed for the deliverables of that contract.

- DNA provided us with spreadsheets that we used to reconcile the accounts[21] during our site visit. However, we found that the balance of the March 2023 bank statements did not reconcile with the spreadsheets for the March reconciliation performed by the CFO. Additionally, we could not trace the reconciled amounts to the general ledger. Lack of management's oversight over the client trust reconciliation process contributed to the untimely and improperly prepared reconciliations.

The LSC Accounting Guide, Section 3-5.7(c), states: "The total of the individual client funds held should be reconciled to the general ledger bank account balance and general ledger liability balance on a monthly basis." Delinquent or inaccurate reconciliation represents a lack of adequate control over financial transactions and increases the possibility that irregular transactions will be undetected, or accountability for client funds will be lost. Following proper bank reconciliation procedures will improve the chances that irregular disbursements and recording errors are discovered on a timely basis.

We recommend that the Executive Director:
Recommendation 40: Strengthen procedures to ensure that client trust bank reconciliations and associated individual client trust ledgers are reconciled monthly and in a timely manner.

[21] The grantee maintains two accounts amongst five field offices.

OIG Evaluation of Grantee Management Comments

On September 16, 2024, DNA responded to the OIG's Draft Report, agreeing with 21 recommendations, partially agreeing with 16, and disagreeing with three recommendations. For the recommendations with which they agreed, DNA included plans to update policies and procedures to ensure compliance and improve efficiency. For DNA's partial agreements with Recommendations 4, 5, 6, 7, 8, 13, 17, 20, 21, 24, 26, 33, and 35, their responses either proposed alternative resolutions to address the OIG's findings or asserted that the grantee's existing practices already address the OIG's findings. DNA also partially agreed with Recommendations 14, 15, and 34, however the OIG disagrees with their response and will be referring the recommendations and associated questioned costs to LSC Management for further review and action. DNA disagreed with recommendations 16, 37, and 38, stating that their existing policies and procedures are adequate. These three recommendations will also be referred to LSC Management for further review and action.

DNA's responses are included in their entirety in Appendix IV.

The OIG determined that DNA's proposed actions address Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13,17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 35, 36, 39, and 40. These 34 recommendations will remain open until the OIG is provided with evidence of the strengthened procedures and policies detailed in Figure 6.

Figure 6: List of Supporting Documentation

Recommendation No.	List of Supporting Documentation Required to Close Recommendation
1	An updated and Board approved Accounting Manual complying with 45 C.F.R. 1631.12(d).
2	A revised Asset Disposal policy.
3	A copy of the most recently completed inventory evidencing its review and reconciliation to the general ledger.
4	A revised Vehicle Use policy which requires logging all use, business and personal, by all employees.
5	An updated and Board approved Personnel Manual which includes a Vehicle Use policy applicable to all employees.
6	An updated and Board approved Personnel Manual which includes a policy that prohibits the Executive Director from changing policies at his or her discretion without review and approval from the Board.
7	An updated and Board approved Accounting Manual that includes a policy requiring the Board to approve all policy changes to the DNA Accounting Manual.
8	A revised Vehicle Use policy stipulating that all vehicle users maintain complete vehicle use logs, including date, time, and purpose of the trip.

Recommendation No.	List of Supporting Documentation Required to Close Recommendation
9	A revised Vehicle Use policy requiring documented review, including signature and date, of monthly vehicle use logs.
10	A revised Cost Allocation policy which includes LSC cost allocation requirements and cost allocation documentation requirements.
11	A revised Cost Allocation policy that lists the supporting documents that must be retained and the requirements for documented review of allocations.
12	A revised Cost Allocation policy that specifies whether allocations will be performed monthly or quarterly.
13	Proof of the Board President's review of the Executive Director's December 2024 credit card expenditures.
17	Proof of established, centrally located and readily accessible recordkeeping system that maintains contract files; evidence that required contract documentation is maintained in that recordkeeping system.
18	A revised Contracting policy which requires central filing of contract documents.
19	Proof of established electronic recordkeeping system maintaining contract files.
20	A revised Contracting policy requiring itemized invoices for services provided.
21	Documentation that (1) the vendor was contacted for a history of reconciliation services provided during the audit period (2) a review was conducted to determine if billing for the reconciliation services rendered was appropriate (3) only if applicable, an attempt to recoup any improperly billed expenses was made.
22	Documentation the grantee implemented and followed procedures to ensure the adequacy of allocations and general ledger classifications.
23	Documentation of the implemented procedures ensuring the proper allocation of attorney fees in accordance with LSC requirements.
24	An updated and Board approved Accounting Manual that includes a section on costs that are unallowable per LSC regulations.
25	Proof that training was provided to employees on identifying and recording unallowable costs.
26	An updated and Board approved Accounting Manual which includes a policy that assigns bank reconciliation duties to appropriate individuals to ensure proper segregation of duties.
27	A revised Cash Receipt policy and copies of the cash receipt logs for October, November, and December 2024.

Recommendation No.	List of Supporting Documentation Required to Close Recommendation
28	An updated Bank Deposit policy detailing responsibilities by position title to ensure segregation of duties. Also, a copy of the accounting system user access rights.
29	A copy of the bank reconciliations prepared and reviewed for October, November, and December 2024.
30	A copy of the bank statements for October, November, and December 2024.
31	Approved Board Minutes that document Board discussion of whether to keep the Petty Cash Funds or implement a Purchase Card.
32	If the Board retains the Petty Cash Funds, (1) a revised Petty Cash policy, (2) Petty Cash ledgers for November and December 2024, (3) evidence of elimination of petty cash balance for closed offices, (4) evidence that outstanding replenishments were made, and (5) proof of training for employees on revised Petty Cash policy was conducted.
33	A revised Disbursement policy which prohibits checks payable to cash and includes a local travel policy and requirements for travel advances.
35	Copies of management reports prepared for Manager/Director review as well as LSC required reports for October, November, and December 2024.
36	A revised Management Reporting and Budgeting policy requiring that a Statement of Cash on Hand is prepared monthly.
39	A revised Payroll policy with procedures that ensure an individual independent of the preparation or distribution of payroll, reviews payroll prior to processing. Also, evidence of the December 2024 payroll register being independently reviewed, with a signature and date.
40	A copy of the October, November, and December 2024 reconciled client trust bank reconciliation and ledgers.

The OIG disagrees with DNA's responses to Recommendations 14, 15, and 34. DNA stated in their response to these recommendations that they provided the OIG with the requested documentation after the due date but that the OIG did not accept the documentation because the review was closed. However, the OIG does not agree with the statement and did not receive the requested information. The OIG made multiple requests to the grantee over the course of many months to obtain the requested credit card and disbursement transaction allocation information. The grantee was unable to provide the requested information and has not provided documentation to the OIG to resolve this issue as of the date of the report.

The OIG will refer Recommendations 14, 15, and 34 to LSC Management for further review and action.

DNA disagreed with Recommendations 16, 37, and 38; their response suggests that the grantee will not implement the OIG's recommendations and will continue their process as is.

- Recommendation 16 relates to Contracting and the need to update the Accounting Manual to include a policy requiring approvals when using more than $25,000 of LSC funds.
- Recommendations 37 and 38 relate to Budgeting and Management Reporting and the need to implement procedures to ensure budgets are prepared with documented approval by the Board prior to the start of each fiscal year and to ensure budgets are fully documented by location, funding source, and program.

The OIG will refer Recommendations 16, 37, and 38 to LSC Management for further review and action.

In addition, the OIG is referring the following items to LSC Management for further review and action:

- The matter relating to vehicle use policy and unaccounted use of a vehicle for business and personal use. The OIG was unable to determine the amount of questioned cost associated with personal use of DNA's company vehicles. DNA's vehicles use policy stipulates that the Executive Director is assigned exclusive use of a vehicle to commute to and from work, for business use and reasonable personal use. The vehicle use logs DNA maintained had time gaps and no logs were provided for the vehicle assigned to the Executive Director. The total vehicle expenses for the audit period were $73,680. Of this amount, $140 was coded as unrestricted. The majority of vehicle expenses were coded to the "To Be Allocated" account and more than half of the To Be Allocated account was charged to LSC grants.

- Questioned costs of $929 related to unallowable credit card transactions. The OIG cannot determine if 34 credit card transactions for purchases of meals and Board gifts were allocated to LSC.

- Questioned costs of $1,500 related to the misclassification of rental income as a credit to Rent-Building general ledger account. This resulted in reducing the general ledger account expense rather than it being properly allocated to LSC.

- Questioned costs of $145 related to attorney fees that should have been allocated to LSC.

Figure 7: Recommendations Table Summary

Recommendations Referred to LSC Management	Recommendations Open	Recommendations Closed
14, 15, 16, 34, 37, and 38.	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 17, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32, 33, 35, 36, 39, and 40.	None.

Appendix I: Scope & Methodology

To achieve the audit objective, we identified, reviewed, evaluated, and assessed internal controls for the following eleven key activities:

1. Fixed Assets
2. Cost Allocation
3. Credit Cards
4. Contracting
5. Derivative Income
6. General Ledger and Financial Controls
7. Disbursements
8. Budgeting and Management Reporting
9. Payroll
10. Client Trust Funds
11. Employee Benefits

For each activity we evaluated financial and administrative areas and assessed the controls in place during the period of January 1, 2022, through April 30, 2023, to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations.

To understand the internal control framework and DNA's processes for the areas listed above, we interviewed grantee management and staff. We also reviewed DNA's policies and procedures, including manuals, guidelines, memoranda, and directives that include the current grantee practices.

To review and evaluate internal controls, we designed and performed audit procedures to obtain sufficient and appropriate evidence to support our conclusions over the design, implementation, and operating effectiveness of controls significant to the audit objective.

For the selected samples we conducted testwork, which included inquiries, observation, and examining source documents to determine whether DNA's internal control system and policies and procedures complied with the guidelines in the LSC Accounting Guide and the LSC Financial Guide.

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. We assessed the internal control components and underlying principles that we determined to be significant to the audit objective. However, because we limited our review to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Additionally, we considered the necessity of evaluating information systems controls. We determined that information system controls were significant to the audit objective. Therefore, we evaluated information system controls related to specific grantee operations, oversight, program expenditures, and fiscal accountability. Our internal control review included performing audit procedures of information system controls to obtain sufficient, appropriate evidence to support and document our findings and conclusions on the implementation and effectiveness of DNA's internal controls. We determined that no additional audit procedures for information systems controls were needed.

Per government auditing standards, we assessed the reliability of DNA's computer-generated data in the eleven reviewed areas listed above. We reviewed selected system controls and supporting documentation, and conducted interviews, logical tests, and testwork including tracing and vouching amounts to and from source documents.

We found the computer-generated data to be unreliable. We performed completeness and accuracy data testing for the activities listed above. We found transactions that were coded incorrectly, journal entries coded incorrectly, cost allocation journal entries not prepared for 2022 and the first quarter of 2023, and cost allocation journal entries not posted to the general ledger provided to the OIG. Without documentation we could not test whether cost allocations met LSC requirements. In discussing our evaluation of Cost Allocation Controls below, there is additional information on documentation we did not receive that limited our ability to determine if cost allocations met LSC requirements. Also, DNA could not provide documentation to support credit card expenses and disbursement allocations. The team discovered many findings throughout the audit, noting that DNA did not perform required accounting and financial reviews.

We also assessed significance and audit risk. We determined that internal controls in the selected financial and operational areas listed on pages 4-5 were significant to the audit objective. Audit risk is defined as the possibility that audit findings, conclusions, recommendations, or assurance may be improper or incomplete because of factors such as insufficient or inappropriate evidence, the inadequacy of the audit process, or intentional omissions or misleading information due to misrepresentation or fraud. Based on our consideration of these factors, we determined the audit risk level to be moderate.

To select our testing samples, we used a non-statistical methodology. Specifically, we used random and judgmental sampling methods. We determined this methodology was appropriate based on the audit scope and objective as well as the audit timeline and the nature of the grantee. Our results cannot be projected to the audit universe, and we do not intend to make inferences about the populations from which we derived our samples.

To assess the appropriateness of expenditures and the existence of adequate supporting documentation, we reviewed disbursement transactions and credit card purchases made by DNA.

To evaluate and assess internal controls over employee benefits, payroll, contracting, client trust funds, budgeting and management reporting, general ledger and financial controls, and derivative income, we interviewed program personnel. Additionally, we examined related policies and procedures, as applicable, and selected specific transactions to review for adequacy and compliance with LSC regulations and guidelines.

To evaluate the adequacy of the cost allocation process and to determine whether the allocation methodology was reasonable and in compliance with LSC regulations and guidelines, we discussed the process with DNA management and reviewed their cost allocation policies and procedures. The cost allocation process used during the audit period was not consistent with DNA's Accounting Manual and did not comply with LSC requirements. We were unable to verify what funding sources limited or did not allow indirect cost allocation.

DNA did not provide the grant applications or grant award documents for funding sources that were allocated the 10% de minimis allocation rate. We were also unable to verify the direct cost allocation base used in the allocation spreadsheet. No cost allocation transactions were recorded in the general ledger for the audit period. We determined that cost allocation was not testable.

We reviewed controls over property purchases and inventory by examining current DNA practices and compared them to LSC regulations and guidance in the LSC Accounting Guide and the LSC Financial Guide. There were no property disposals during the audit period, and we did not test property disposal.

We performed a hybrid audit, beginning remotely in June 2023 and visiting DNA's administrative office from July 10, 2023 – July 13, 2023. We conducted interviews via remote video conferencing. DNA and LSC Management provided documents electronically and we obtained some documents while on-site. Documents reviewed were for the audit scope period January 1, 2022, through April 30, 2023. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objective. We believe the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

Appendix II: Assessment of Internal Control Components and Principles

Figure 8: Internal Control Principles Significant to the Audit Objective[22]

Internal Control Component		Principle	
Name	**Overview**	**Number**	**Description**
Control Environment	The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.	1	Demonstrate Commitment to Integrity and Ethical Values
		2	The Oversight Body Should Oversee the Entity's Internal Control System
		3	Management Should Establish an Organizational Structure, Assign Responsibility, and Delegate Authority to Achieve the Entity's Objectives
Control Activities	Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.	10	Management Should Design Control Activities to Achieve Objectives and Respond to Risks
		11	Management Should Design the Entity's Information System and Related Control Activities to Achieve Objectives and Respond to Risks

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

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

Appendix III: Grantee Management Comments

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September 16, 2024

Roxanne Caruso
Assistant Inspector General for Audit
Legal Services Corporation
3333K Street, NM, 3rd Floor
Washington DC 20007-3358
Re: Response to LSC Office of Inspector General Draft Report

Dear Ms. Caruso:

DNA - People's Legal Services ("DNA") response to the August 15, 2024 Legal Services Corporation Office of Inspector General draft report assessing the adequacy of select internal controls in place at DNA - People's Legal Services is attached. As instructed, the recommendation tracking form containing our response to each recommendation and our plans to implement the recommendations detailed in the draft report is also attached.

We appreciate the guidance provided in the draft report to help us improve and strengthen our accounting operation. We are certain that we will be able to address the concerns detailed by your team, most of which stem from accounting staffing issues, and from the need to update our Accounting Manual and internal policies.

With respect to staffing issues, for most of the January 1, 2022 to April 30, 2023 review period we had three vacancies in our five person DNA accounting operation (Accountant III, Accountant II, and Grant Administrator). Additionally, our Chief Financial Officer was hired during the middle of the period under review, and even though he has extensive legal services accounting experience, he just started learning about DNA's organizational structure and accounting practices, and refamiliarizing himself with LSC accounting policies and financial guidelines. At present, we have addressed our accounting office staffing issues by filing all vacant positions and supporting accounting staff training needs.

In closing, we are optimistic that with DNA Board of Director's support, additional training, and peer guidance, we will be able to address the concerns detailed in the report and set out in the recommendations. We will also be able to update our various internal guides and operating documents, and in particular our Accounting Manual.

If you have any questions or need additional information, please contact me or Otis Perkins, Chief Financial Officer.

Sincerely,

Rodolfo D. Sanchez
Executive Director
DNA People's Legal Services

United Way

LSC | America's Partner for Equal Justice
LEGAL SERVICES CORPORATION

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Recommendation Tracking

Grantee Name: DNA-People's Legal Services, Inc.

RNO: 703068

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

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

Recommendations	Response	Comments
Recommendation 1	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will revise the DNA Accounting Manual to comply with 45 C.F.R 1631.12(d) that prohibits giving or selling assets to DNA employees and/or Board Members.

Recommendations	Response	Comments
Recommendation 2	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will revise the Accounting Manual to add asset disposal requirements to ensure that documentation is maintained for each disposed asset.
Recommendation 3	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will review the inventory periodically (at minimum every two years) and verify that the inventory reconciles to the general ledger. The review and reconciliation will be documented by signature or initials and date.
Recommendation 4	Agree ☐ Partially Agree ☒ Disagree ☐	With the exception of the vehicle assigned to the Executive Director, the vehicle policy currently provides: "Employees must maintain and submit records documenting business use of the company vehicle. This documentation includes a mileage report that should be submitted contemporaneously with a related travel reimbursement request or within forty-five (45) days of a business trip that is grant reimbursable." For sake of clarity, and to address the recommendation, the policy will be revised to state that business use and all non deminimus personal use (as that term is defined by IRS rules) must be logged.
Recommendation 5	Agree ☐ Partially Agree ☒ Disagree ☐	Allowable personal use referenced in the policy is described as "Individuals using a company vehicle, however, may make incidental stops in a company vehicle and a company vehicle may be used as needed for mixed business/personal use, as well as for occasional personal use." This is consistent with deminimus personal use definitions set out in the IRS regulations. We agree, however, to revise this statement so that it is clear that acceptable personal vehicle use is generally limited to deminimus use. We will also note in the policy that: under IRS rules normal commuting from home to

Recommendations	Response	Comments
		work is generally considered as personal use and will be reported as a fringe benefit. With respect to the vehicle assigned to the Executive Director, and depending on guidance from DNA's Board of Directors, personal use of the vehicle will be reported as a taxable fringe benefit. The value of this benefit will be consistent with IRS guidelines, including IRS Publication 15 – B, Employer's Tax Guide to Fringe Benefits. The cost of this fringe benefit will be allocated pursuant to DNA's cost allocation policy.
Recommendation 6	Agree ☐ Partially Agree ☒ Disagree ☐	The current Vehicle Use Policy and the previous Vehicle Use Policy were both approved by the DNA Board of Directors. This is consistent with our practice of obtaining DNA Board approval prior to implementing or revising this type of policy. Nonetheless, we will request permission from the DNA Board of Directors to add the following statement to our Personnel Manual: "Substantive revisions to DNA employment policies, including revisions to our Vehicle Use Policies, Holiday Schedule, and Salary Plan are subject to approval by the DNA Board of Directors."
Recommendation 7	Agree ☐ Partially Agree ☒ Disagree ☐	The current version of DNA's Accounting Manual was approved by the DNA Board of Directors. Nonetheless, we will request permission from the DNA Board of Directors to add the following statement to our Accounting Manual: "Substantive revisions to DNA's Accounting Manual are subject to approval by the DNA Board of Directors."
Recommendation 8	Agree ☐ Partially Agree ☒ Disagree ☐	Consistent with responses to previous vehicle log related recommendations, working with the DNA Board of Directors, we will revise our vehicle use policy to state that staff must record the date and purpose of each trip

Recommendations	Response	Comments
Recommendation 9	Agree ☒ Partially Agree ☐ Disagree ☐	Working with the DNA Board of Directors we will revise our vehicle use policy to require that the Facilities Manager or designee review vehicle use logs on a monthly basis. We will also modify our vehicle use policy to require that the review include the signature of the reviewer and the date of the review.
Recommendation 10	Agree ☒ Partially Agree ☐ Disagree ☐	Working with the DNA Board of Directors, DNA will revise the DNA Accounting Manual to include all LSC cost allocation requirements, including cost allocation documentation requirements.
Recommendation 11	Agree ☒ Partially Agree ☐ Disagree ☐	Working with the DNA Board of Directors, DNA will update the cost allocation section of the DNA Accounting Manual to include: a list of supporting documents to be retained for cost allocations; a requirement that cost allocations are reviewed; and a requirement that the review be documented.
Recommendation 12	Agree ☒ Partially Agree ☐ Disagree ☐	Working with the DNA Board of Directors we will decide whether to allocate costs monthly or quarterly and we will update our Accounting Manual accordingly.
Recommendation 13	Agree ☐ Partially Agree ☒ Disagree ☐	DNA will implement processes to ensure that accounting staff review the Executive Director's credit card statements; and that the Board President reviews, approves, and adequately documents the approval of the Executive Director's credit card expenditures with a signature and date.
Recommendation 14	Agree ☐ Partially Agree ☒ Disagree ☐	DNA has controls in place to ensure that entries for transactions are adequately referenced in the general ledger, and source documents are traceable to the General ledger. Grant codes are coded in the accounting system and included with supporting documentation.

Recommendations	Response	Comments
		During the OIG review, requested documentation was provided to OIG staff after the due date. Our records were not accepted because we were advised that that part of the review was closed.
Recommendation 15	Agree ☐ Partially Agree ☒ Disagree ☐	DNA has processes in place to ensure that only LSC-allowable expenses are allocated to LSC, in accordance with LSC requirements and guidance. Documents evidencing these processes were provided to OIG staff after the due date. Our records were not accepted because we were advised that that part of the review was closed.
Recommendation 16	Agree ☐ Partially Agree ☐ Disagree ☒	The DNA Accounting Manual at page 70 currently requires LSC approval when using more than $25,000 of LSC funds for contracts, purchases/leases of personal property, or capital improvements.
Recommendation 17	Agree ☐ Partially Agree ☒ Disagree ☐	DNA has procurement documentation procedures ensuring that required documents — including but not limited to: request for approvals, competitive bids and quotes, sole source justifications, and documentation of any deviation from the procurement process —be centrally located and readily accessible. This includes all active contracts and contracts that are expired but preserved according to the record retention policy and stored onsite at the Window Rock office. DNA will be more diligent in following these procedures.
Recommendation 18	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will update the DNA Accounting Manual to state that contract documents must be maintained in a central file according to the record retention policy post expired contract terms.
Recommendation 19	Agree ☒ Partially Agree ☐	DNA will implement the recommendation of performing regular backups of electronic records and systems stored

Recommendations	Response	Comments
	Disagree ☐	offsite or in a virtual environment with easy-to-use restoration options.
Recommendation 20	Agree ☐ Partially Agree ☒ Disagree ☐	DNA has procedures to ensure invoices are itemized according to the terms of the contract before payment is disbursed. However, DNA will strengthen the policy to require an itemized invoice of services provided. DNA will also be more diligent in following these procedures.
Recommendation 21	Agree ☐ Partially Agree ☒ Disagree ☐	DNA will contact the vendor for a history of reconciliation services provided during the audit period; conduct a review to determine if billing for services rendered was appropriate; and attempt to recoup any improperly billed expenses.
Recommendation 22	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will follow LSC guidelines to ensure adequacy of allocations and general ledger classifications. If requested to do so, DNA will reclassify $1,500 related to rental income and not allocated to LSC to DNA's LSC funding.
Recommendation 23	Agree ☒ Partially Agree ☐ Disagree ☐	DNA has implemented procedures to ensure the proper allocation of attorney fees in accordance with LSC requirements.
Recommendation 24	Agree ☐ Partially Agree ☒ Disagree ☐	DNA will review and or update the DNA Accounting Manual to include a section on costs that are unallowable per LSC regulations, to include identifying unallowable costs such as entertainment, fines and penalties, contributions, donations, lobbying, etc.
Recommendation 25	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will identify and provide training on identifying and recording unallowable costs to DNA accounting staff and any other personnel responsible for approving purchases or disbursements.

Recommendations	Response	Comments
Recommendation 26	Agree ☐ Partially Agree ☒ Disagree ☐	At the time of the audit, DNA's accounting operation was understaffed and positions identified in our Accounting Manual did not match up with filled positions (DNA had a CFO and an Accountant I, but had openings for an Accountant III, Accountant II, and Grant Administrator). DNA's accounting department is now fully staffed. DNA will review and update our Accounting Manual in light of our current staffing to ensure segregation of duties so employees who initiate or transmit electronic transactions, have no access to cash, are not check signers, and have no bookkeeping duties. Accounting Manual to clearly designate assigned bank reconciliation duties ensuring segregation of duties.
Recommendation 27	Agree ☒ Partially Agree ☐ Disagree ☐	At the time of the audit, DNA's accounting operation was understaffed. DNA had a CFO and an Accountant I, but had openings for an Accountant III, Accountant II, and Grant Administrator. DNA's accounting department is now fully staffed and we will establish adequate segregation of duties to address the concerns set out in this recommendation.
Recommendation 28	Agree ☒ Partially Agree ☐ Disagree ☐	At the time of the audit, DNA's accounting operation was understaffed. DNA had a CFO and an Accountant I, but had openings for an Accountant III, Accountant II, and Grant Administrator. DNA's accounting department is now fully staffed and we will establish adequate segregation of duties to address the concerns set out in this recommendation.
Recommendation 29	Agree ☒ Partially Agree ☐ Disagree ☐	DNA has implemented procedures to ensure that bank reconciliations are signed and dated according to when the bank reconciliation review was performed.

Recommendations	Response	Comments
Recommendation 30	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will ensure that outstanding checks are investigated and resolved within 90 days according to DNA's policy.
Recommendation 31	Agree ☒ Partially Agree ☐ Disagree ☐	We will discuss with the DNA Board of Directors whether DNA should maintain petty cash funds or implement purchase cards to replace petty cash funds.
Recommendation 32	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will most likely stop using petty cash funds. If DNA continues to use petty cash funds, we will implement the measures set out in this recommendation.
Recommendation 33	Agree ☐ Partially Agree ☒ Disagree ☐	DNA will review our Accounting Manual and Personnel Manual and to the extent these items aren't properly addressed, we will include: 1) A policy prohibiting checks made payable to cash; 2) a local travel policy with the elements required by the LSC Financial Guide; and 3) The LSC Financial Guide requirements for travel advances.
Recommendation 34	Agree ☐ Partially Agree ☒ Disagree ☐	DNA has implemented controls to ensure transactions are adequately referenced in the general ledger, source documents are traceable to the general ledger and Grant codes are coded in the accounting system. During the OIG review, requested documentation was provided to OIG staff after the due date. Our records were not accepted because we were advised that that part of the review was closed.
Recommendation 35	Agree ☐ Partially Agree ☒	Procedures are in place but will be strengthened. Currently, DNA year to date financial reports are presented to DNA managers monthly and upon request.

Recommendations	Response	Comments
	Disagree ☐	DNA also prepares annual budgets and monthly financial statements by location, funding source and program, detailing expected revenue, and personnel and non-personnel expenditures.
Recommendation 36	Agree ☒ Partially Agree ☐ Disagree ☐	DNA will update the DNA Accounting Manual to specify the Cash Flow Statement/Cash on Hand as a required monthly report.
Recommendation 37	Agree ☐ Partially Agree ☐ Disagree ☒	DNA's annual budgets are prepared and approved by the Board prior to the start of each fiscal year. This approval is documented in our Board minutes.
Recommendation 38	Agree ☐ Partially Agree ☐ Disagree ☒	DNA's annual budget is fully documented by location, funding source and program, as stipulated in the DNA Accounting Manual
Recommendation 39	Agree ☒ Partially Agree ☐ Disagree ☐	DNA's accounting department is now fully staffed and we have implemented the segregation of payroll duties set out in this recommendation
Recommendation 40	Agree ☒ Partially Agree ☐ Disagree ☐	We have strengthened these procedures and DNA client trust bank reconciliations and associated individual client trust ledgers are reconciled monthly and in a timely manner.

Name and Title Otis Perkins, DNA – People's Legal Services Chief Financial Officer

Signature Otis Perkins

Acronyms, Abbreviations, and Glossary

Acronyms and Abbreviations	
CFO	Chief Financial Officer
C.F.R.	Code of Federal Regulations
COVID-19	Coronavirus Disease 2019
DNA	DNA-People's Legal Services, Inc.
IT	Information Technology
LSC	Legal Services Corporation
OIG	Office of Inspector General

Glossary	
Fixed Assets	Assets that meet the grantee's capitalization threshold, are depreciated, and are included on the grantee's inventory.
Credit Cards	Payment by card from financial institution for grantee purchases.
Contracting	Procurement of goods and services.
Derivative Income	Income received as a result of the use of LSC funds such as interest income, rent, portion of reimbursement or recovery of direct payments to attorneys and proceeds from the sale of assets.
General Ledger and Financial Controls	Recordkeeping system for financial data and the policies and procedures in place to safeguard accounting transactions including cash transactions.
Cost Allocation	Method to distribute costs incurred that support more than one grant, contract, or funding agreement.
Disbursements	Payments by check or ACH to grantee vendors including employee travel and other reimbursements.
Budgeting and Management Reporting	Financial plan to allocate resources and provide a system of evaluation and control. Financial reports to help the Board and grantee management make financial decisions and report to funders.