REPORT NO. AU 25-03

DECEMBER 2024

Southern Arizona Legal Aid, Inc. (SALA)

RNO 703050

Performance Audit Report on SALA's LSC Grant Oversight and Compliance with LSC Grant Requirements

OFFICE OF INSPECTOR GENERAL

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LEGAL SERVICES CORPORATION

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Legal Services Corporation
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December 9, 2024

Anthony Young, Executive Director
Southern Arizona Legal Aid, Inc.
Continental Building,
2343 E Broadway Blvd, #200
Tucson, AZ 85719

Dear Mr. Young,

Enclosed is the final report of the Performance Audit of Southern Arizona Legal Aid's (SALA) LSC Grant Oversight and Compliance with LSC Grant Requirements. The Office of Inspector General (OIG) contracted with Sikich CPA LLC (Sikich) to conduct the audit. The contract required Sikich's audit work to be conducted in accordance with Generally Accepted Government Auditing Standards. Appendix A of the final report includes SALA's comments to the draft report in their entirety.

Sikich is responsible for the attached audit report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in the audit report. To fulfill our responsibilities, we:

- Reviewed the approach to and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit;
- Coordinated periodic meetings, as necessary;
- Reviewed the draft and final audit reports; and
- Coordinated the issuance of the audit report.

Sikich made eight recommendations and three suggestions for consideration in the report. Sikich also questioned costs of $48,887. Sikich's evaluation of SALA's responses begins on page 18 of the report. The OIG's evaluation of SALA's responses to the recommendations are in Appendix E.

The OIG considers SALA's actions to address Recommendation 8 as fully responsive. This recommendation is considered closed.

The OIG considers the proposed actions to Recommendations 1-7 to be responsive; however, these recommendations will remain open until the OIG is provided with the supporting documentation listed on pages 33 - 34.

Lastly, we will refer questioned costs totaling $48,887 to LSC Management for further review and action. The questioned costs resulted from inappropriately charged indirect expenses, inappropriately allocated salary expenses, and unallowable expenses.

Please send us responses to close out the seven recommendations, along with supporting documentation, to Roxanne Caruso, Assistant Inspector General for Audit. We expect to receive your submission by June 10, 2025.

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

Sincerely,

Thomas E. Yatsco
Inspector General

Enclosure

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

Executive Summary

Performance Audit on SALA's LSC Grant Oversight and Compliance with LSC Grant Requirements

The OIG contracted with Sikich to conduct a Performance Audit of SALA's Oversight and Compliance with LSC Grant Requirements.

Objective

The objective was to assess the effectiveness and efficiency of SALA's management of LSC funds including SALA's program expenditures, fiscal accountability, and compliance with LSC regulations and grant terms and conditions. The audit was performed in accordance with Government Auditing Standards.

Headquartered in Tucson, AZ, SALA is a non-profit law firm which provides free civil legal aid to the eligible population in nine Arizona counties and 11 Arizona Native American communities.

AUDIT RESULTS

The audit identified five findings related to SALA's compliance with LSC grant requirements. SALA inappropriately:

- charged indirect expenses as direct costs,
- allocated salary costs,
- charged unallowable expenses to LSC grants,
- maintained accounting records, and
- composed its current Board of Directors.

As a result of the findings, Sikich questioned costs totaling $48,887 which the OIG will refer to LSC Management for resolution. Sikich also reported an Other Matter about using the Native American Grant excess funds to eliminate a Basic Field Grant deficit.

RECOMMENDATIONS

Sikich included eight recommendations to resolve the findings and three suggestions for consideration regarding an other matter. These recommendations are intended to strengthen SALA's compliance with LSC regulations and guidance.

MANAGEMENT RESPONSE

SALA agreed with six recommendations, partially agreed with one recommendation, and disagreed with one recommendation. SALA agreed with the three suggestions for consideration and will revise its Fiscal Year 2022 and 2023 Financial Statements. Seven recommendations will remain open until SALA provides the OIG additional supporting documentation. The eighth recommendation is closed because SALA provided its written Board composition policy. SALA's Management's response is included in its entirety in Appendix A.

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November 21, 2024

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

Dear Mr. Yatsco,

Sikich CPA LLC (herein referred to as "we") conducted a performance audit to assess the effectiveness and efficiency of SALA's operations and management of LSC funds including program expenditures, fiscal accountability, and compliance with LSC regulations as well as grant terms and conditions applicable to SALA's LSC grant awards. We performed the audit in accordance with our Statement of Work for Task Order 1, dated December 12, 2022. Our report presents the results of the audit and includes recommendations to help improve the effectiveness and efficiency of SALA's operations and management of LSC funds.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended solely for the use of the LSC Office of Inspector General and SALA management and is not intended to be, and should not be, relied upon by anyone other than these specified parties.

We appreciate the opportunity to have conducted this audit. Should you have any questions or need further assistance, please contact us at (703) 836-1350.

Sincerely,

Sikich CPA LLC

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BACKGROUND

The Legal Services Corporation (LSC) operates as an independent 501(c)(3) nonprofit corporation that promotes equal access to justice and provides grants for civil legal assistance to low-income Americans. LSC receives 99 percent of its funding through federal government appropriations and distributes more than 90 percent of its funding to 131 independent nonprofit legal aid programs with more than 890 offices, including Southern Arizona Legal Aid (SALA).

The LSC Office of Inspector General (OIG) has two principal missions: to assist management in identifying ways to promote efficiency and effectiveness in the activities and operations of LSC and its grantees, and to prevent and detect fraud, waste, and abuse. The OIG's primary tools for achieving these missions are (1) fact-finding through financial, performance and other types of audits, evaluations, and reviews and (2) investigations into allegations of fraud, waste, and abuse.

The OIG engaged Sikich CPA LLC (formerly Cotton & Company Assurance and Advisory, LLC) (herein referred to as "we"), to conduct a performance audit of SALA's ("recipient") compliance with LSC regulations and guidance applicable to its 2021 and 2022 LSC Basic Field and Native American Grants, COVID-19 Response Grant, and Telework Capacity Building Grant.

SALA is a non-profit law firm, established in 1951, which provides free, civil legal aid to low-income individuals and families in nine Arizona counties and in 11 Arizona Native American communities. SALA receives annual LSC funding to support the basic civil legal needs of impoverished Americans. During the period under audit, SALA received funding under the following LSC grant agreements:

- Basic Field Grants[1]
- COVID-19 Response Grant
- Telework Capacity Building Grant

Relevant to the scope of our audit, SALA received LSC grant funding and reported associated revenues as shown in Table 1:

[1] SALA's Basic Field grants used in this report included allocations for both Basic Field general and Native American service areas.

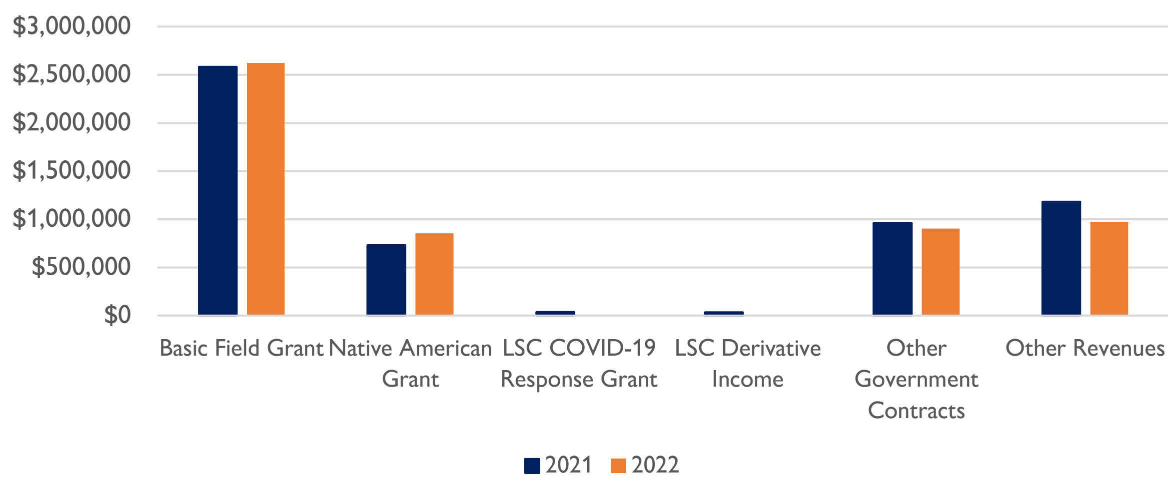
Table 1: Summary of LSC Funding Received by SALA During the Audit Period

LSC Award	Grant Award	Recorded Revenues[2]
Basic Field Grant (2021)	$2,583,287	$2,535,633
Native American Grant (2021)	$792,319	$633,633
Basic Field Grant (2022)	$2,621,118	$2,323,185
Native American Grant (2022)	$835,613	$816,029
COVID-19 Response Grant (2020)	$311,916	$35,551
Telework Capacity Building Grant (2020)	$19,520	$19,520

Source: Auditor summary of LSC grants awarded to SALA during the audit period.

SALA's annual audited financial statements indicate that approximately 60 percent of its Calendar Year, which is also SALA's fiscal year, 2021 and 2022 revenues were from LSC funding as demonstrated in Figure 1.

Figure 1: SALA Calendar Year 2021 and 2022 Revenues by Funding Source



Source: Auditor summary of SALA's revenue from its 2021 and 2022 audited financial statements.

AUDIT SCOPE AND OBJECTIVES

The objectives of this performance audit were to assess the effectiveness and efficiency of SALA's operations and management of LSC funds including:

- program expenditures,
- fiscal accountability, and

[2] The COVID-19 Response and Telework Capacity Building grants were both awarded March 1, 2020. SALA recorded 2021 revenues of $35,720 for the COVID-19 Response grant. Revenues of $19,520 for the Telework Capacity Building grant were recorded in 2020.

- compliance with LSC regulations as well as grant terms and conditions applicable to SALA's LSC grant awards.

This performance audit was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report (**Appendix B**) and was conducted in accordance with *Government Auditing Standards referred to as generally accepted government auditing standards* (GAGAS), issued by the Comptroller General of the United States.

Specifically, we evaluated SALA's compliance with LSC regulations and guidance for Basic Field Grant funding (from January 1, 2021, through December 31, 2022), for COVID-19 Response Grant funding (from January 1, 2021, through December 31, 2021), and for Telework Capacity Building Grant funding (from March 1, 2020, through August 31, 2020).

AUDIT RESULTS

We questioned costs totaling $48,887 that SALA charged to three LSC grants, as detailed in Table 2 below. The OIG will refer the questioned costs to LSC Management for resolution. We also identified two findings that did not result in questioned costs but did result in non-compliance with certain LSC regulations. Further, we identified one other matter for SALA to consider regarding its treatment of surplus grant funds. See Table 2 for a summary of questioned costs by finding area, **Appendix C** for a summary of questioned costs by grant award, and **Appendix D** for a summary of all recommendations and suggestions.

Table 2: Summary of Questioned Costs by Finding Area

Finding Description	Questioned Costs
SALA Inappropriately Charged Indirect Expenses as Direct Costs	$27,167
SALA Did Not Appropriately Allocate Salary Expenses	$17,816
SALA Charged Unallowable Expenses	$3,904
Total	**$48,887**

We provided a total of eight recommendations related to the five findings identified to strengthen SALA's administrative and management procedures for monitoring LSC funds. The OIG will refer the $48,887 of questioned costs to LSC Management. We also provided three suggestions for consideration regarding the transfer of Basic Field Grant funds between service areas and recording grant fund excess or deficit in the accounting records. We communicated our audit results, the related findings, and our recommendations to SALA. SALA's responses are included in their entirety in **Appendix A**.

FINDING 1: SALA INAPPROPRIATELY CHARGED INDIRECT EXPENSES AS DIRECT COSTS[3]

SALA inappropriately charged salary and other expenses (see the list in subsection b below) as direct costs to the Basic Field Grants. These expenses should have been recorded as indirect costs.

SALA charged $65,597 to the Basic Field Grants consisting of leave and holiday hours (see subsection a below) and other indirect costs (see subsection b below), that do not meet LSC regulatory requirements found in the Code of Federal Regulations[4] (C.F.R.), specifically 45 C.F.R. § 1630.5. This regulation establishes the standards governing allowable costs under LSC grants or contracts. The costs do not meet the definition of direct costs; per 45 C.F.R. § 1630.5(d) direct costs "can be identified specifically with a particular grant award, project, service, or other direct activity…". The leave and holiday hours and the other indirect costs listed below meet the definition in 45 C.F.R. § 1630.5(e), which states that, "Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective." Thus, the leave and holiday hours and other listed indirect costs should have been allocated to all benefiting cost objectives. Had SALA appropriately allocated these as part of the indirect cost allocation, it would have charged $38,430, or $27,167 ($17,506 of leave time and $9,661 of other direct costs) less than the total amount charged to LSC.

a. Leave and Holiday Hours Inappropriately Charged as Direct Costs

During our testing, we found that SALA charged some leave and holiday hours directly to LSC grants. Leave and holiday hours are an employee benefit earned over time and the cost of these benefits cannot be specifically identified with a particular final cost objective. These costs related to leave and holiday hours do not meet the definition of direct costs per 45 C.F.R. § 1630.5(d), which states those costs can be identified with a particular grant project or direct activity. These costs must be recorded as indirect costs, also defined above, to comply with LSC regulations and SALA's Cost Allocation Plan and Procedures, which are included in the SALA Accounting Manual. Per this Manual, "Direct costs are those that can be specifically identified with a particular grant award…and are to be assigned directly to the grant," and "Indirect costs are those that share a common or joint objective and cannot be readily identified with a specific grant or directly funded by the grant."

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[3] The LSC Financial Guide, Section 3.7.1, defines direct costs as costs that can be identified specifically with a particular grant award, project, service, or other direct activity of an organization. These activities are also referred to as cost objectives. The same section defines indirect cost as costs incurred for common or joint cost objectives.

[4] The federal regulation governing the use of LSC funds are in the Code of Federal Regulations, Title 45, Public Welfare, Subtitle B, Regulations Relating to Public Welfare, Chapter XVI, Legal Services Corporation.

For the four pay periods tested[5] (one pay period in 2021 and three in 2022), we identified 80 timesheets (54 percent of the 149 timesheets tested) with leave and/or holiday hours charged directly to the Basic Field Grants. We found that SALA charged Basic Field Grants an amount totaling $42,316 for 1,203 leave and holiday hours. Had SALA properly recorded the cost of these hours as indirect, $24,810 of this amount would have been allocated to the Basic Field Grants, or $17,506 less than the amount charged over the four pay periods tested.

SALA noted that its policy is to charge leave and holiday hours to an indirect code in the case management system. However, this policy is not documented in either the SALA Accounting Manual or the SALA Personnel Manual. The policy is only communicated during new employee training.

b. Indirect Costs Inappropriately Charged as Direct Costs

Our testing found that indirect costs that benefited multiple cost objectives and that cannot be specifically identified with a particular final cost objective, were charged directly to LSC Basic Field Grants. These costs should have been recorded as indirect costs, as required by 45 C.F.R. § 1630.5(e), defined above, and the SALA Accounting Manual's Cost Allocation Plan and Procedures.

We tested a sample[6] of 2021 and 2022 non-salary expenses charged to the Basic Field Grants and identified $23,281[7] in expenses that were recorded as direct to the grants but were not readily identified with a particular cost objective including:

- $17,500 for a payment to a staffing agency for temporary employment of a comptroller.
- $505 of annual State Bar of Arizona dues for one SALA managing attorney that does not dedicate 100 percent of their effort to LSC grants.
- $197 for food served at a SALA Board of Directors meeting.
- $99 in registration fees paid for a mandatory State Bar of Arizona course on professionalism.
- $739 to purchase office chairs for SALA's newly hired Deputy Director.
- $2,143 for the purchase of a telephone receiver and computer monitors for new employees hired in the Tucson office.

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[5] We judgmentally selected 4 of the 52 biweekly 2021 and 2022 pay periods for testing. We tested leave charges for the four pay periods for all employees that charged hours to the Basic Field Grants – a total of 149 timesheets. Because our sample was not statistical, the results cannot be projected to the population of Basic Field Grant labor charges.

[6] We judgmentally selected a sample of 40 Basic Field Grant non-salary expense transactions for testing. The sampled transactions totaled $610,880, which is 32 percent of SALA's total non-salary Basic Field Grant expenses for 2021 and 2022.

[7] Because our sample was not statistical, the results cannot be projected to the population of Basic Field Grant non-salary expenses.

- $2,098 for two monthly payments made under an information technology (IT) support contract.

SALA did not follow its written policies and procedures for charging direct and indirect costs. Had SALA properly recorded these expenses as indirect costs, we determined that $13,620 of this amount would have been allocated to the Basic Field Grants, or $9,661 less than the amount charged.

Conclusion

- SALA's lack of written timekeeping policies and its policies and procedures over recording direct or indirect costs were insufficient and failed to ensure that costs were properly charged to Basic Field Grants.

- SALA's inappropriate charging of expenses as direct costs resulted in the LSC Basic Field Grants being disproportionally charged for indirect costs.

We are questioning $27,167 in costs charged to the Basic Field Grants, summarized in Table 3. The OIG will refer the questioned amount to LSC Management for review and action.

Table 3: Finding 1 Summary: Indirect Expenses Inappropriately Charged as Direct Costs

Description	LSC Award(s)	Questioned Costs
Leave and Holiday Hours Inappropriately Charged as Direct Costs	2021 Basic Field Grant	$2,741
	2022 Basic Field Grant	$14,765
Non-Salary Expenses Inappropriately Charged as Direct Costs	2021 Basic Field Grant	$8,803
	2022 Basic Field Grant	$858
Total		**$27,167**

Recommendations

We recommend that SALA's Executive Director:

1. Develop written timekeeping policies and procedures, including timesheet review, and provide training to SALA staff and to new employees on charging leave and holiday time.

2. Provide training to all SALA employees involved in coding costs as direct or indirect. The training should include the definitions of direct and indirect costs and should contain explicit guidance on how to account for each type of expense.

FINDING 2: SALA DID NOT APPROPRIATELY ALLOCATE SALARY EXPENSES

SALA did not allocate salary expenses to the LSC Basic Field Grants in accordance with the relative benefits received as required per 45 C.F.R. § 1630.5(c)(1), which states, "A cost is allocable to a particular cost objective, such as a grant, project, service, or other activity, in accordance with the relative benefits received." Section 1630.5(c)(2) establishes that a cost is allocable to an LSC grant or contract, "if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: (i) Is incurred specifically for the grant or contract; (ii) Benefits both the grant or contract and other work and can be distributed in reasonable proportion to the benefits received; or (iii) Is necessary to the recipient's overall operation, although a direct relationship to any particular cost objective cannot be shown." SALA charged salary expenses to the Basic Field Grants that did not meet the 45 C.F.R. § 1630.5(c) definition of allocable costs and are therefore not allowable per 45 C.F.R. § 1630.5(a), which provides the general criteria for expenditures to be allowable under an LSC grant or contract.[8]

The SALA Accounting Manual includes two methods for allocating support staff salaries, but neither was being used. The SALA Accounting Manual does not address how to allocate costs for hours worked in excess of the SALA 35 hours per week requirement.

a. Inappropriately Allocated Support Staff Salaries

SALA charged support staff salaries, totaling $373,011 in 2021 and $450,395 in 2022, to the Basic Field Grants based on unsupported estimates. Support staff salaries were incurred to support all SALA activities; however, support staff did not maintain records of time spent on cases or matters that are identified with specific grants or contracts. SALA should have

[8] 45 C.F.R. § 1630.5 Standards governing allowability of costs under LSC grants or contracts. (a) ***General criteria.*** 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;

(3) Allocable to the grant or contract;

(4) In compliance with the Act, applicable appropriations law, LSC rules, regulations, guidelines, and instructions, the Accounting Guide for LSC Recipients, the terms and conditions of the grant or contract, and other applicable law;

(5) Consistent with accounting policies and procedures that apply uniformly to both LSC-funded and non-LSC-funded activities;

(6) Accorded consistent treatment over time;

(7) Determined in accordance with generally accepted accounting principles; and

(8) Adequately and contemporaneously documented in business records accessible during normal business hours to LSC Management, the Office of Inspector General, the General Accounting Office (renamed the Government Accountability Office on July 7, 2004), and independent auditors or other audit organizations authorized to conduct audits of recipients.

recorded these salaries as indirect costs. For the four pay periods[9] tested, we calculated the difference between the $43,628 support staff salary expenses recorded as Basic Field Grant direct costs and the expenses that would have been charged had SALA properly recorded support staff salaries as indirect costs.[10] Had SALA properly recorded these expenses as indirect costs, we determined that $25,812 of the amount would have been allocated to the Basic Field Grants, or $17,816 less than the amount charged. The OIG will refer the questioned cost to LSC Management for review and action.

LSC Regulation 45 C.F.R. § 1635.3 requires that a, "…recipient employee who performs work that is charged to one or more awards as a direct cost (as defined in 45 C.F.R. § 1630.5(d)) must keep time according to the standards set forth in § 1635.4." 45 C.F.R. § 1635.4 defines LSC's timekeeping standards and requires that, "Recipients must base allocations of salaries and wages on records that accurately reflect the work performed." Furthermore, 45 C.F.R. § 1630.5 (c)(3) states that, "Recipients must maintain accounting systems sufficient to demonstrate the proper allocation of costs to each of their funding sources." There are no records to support charging support salaries directly to LSC grants because SALA does not require support staff to complete personnel activity reports or timesheets – only timecards recording total hours worked each day.[11] Per 45 C.F.R. §1630.5(d), salaries can qualify as direct costs only for staff working on cases or matters identified with specific grants or contracts and must be supported by personnel activity reports.

SALA also did not follow its policy, which states that:

> Other personnel costs, mainly support staff, are allocated either directly to a grant or are allocated based on the percentage derived for each funding source. Personnel costs may be allocated to grants based the ratio of the grant revenue to total revenue from which a percentage is derived…Another method is the ratio of personnel costs to the total personnel costs from which a percentage is derived for allocation.

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[9] We tested Basic Field Grant charges for one pay period in 2021 and three pay periods in 2022. We identified total support staff salaries recorded for each of these pay periods to calculate questioned costs. These calculations cannot be used to project questioned costs for the entire audit period because they were not based on a statistical sample.

[10] SALA charges indirect costs (including administrative salaries) to Cost Center 60 (CC60) in its accounting system, and allocates these costs quarterly based on direct salaries for attorneys and paralegals.

[11] Prior to September 2022, the estimated effort for support staff time on the Basic Field Grants ranged from 20 percent to 80 percent. However, in September 2022, SALA increased this to 80 percent for most support personnel, stating that the updated percentages were based on the estimated time that support staff spent determining eligibility and citizenship on intakes.

b. Salary Expenses Not Appropriately Allocated

SALA did not allocate salaries to LSC grants based on the total activity reflected on the timekeeping records for the SALA employees who are required to maintain 45 C.F.R. Part 1635 compliant time records. This regulation requires that recipient employees whose time is charged to a contract or grant as a direct charge must keep records that accurately reflect the work performed and the total activity for which the recipient compensates the employee.

We tested SALA salary charges for four pay periods in 2021 and 2022,[12] and found that 13 of the 80 Basic Field Grant timesheets we tested included more hours worked than the set hours for the week. We found that, in accounting for the additional hours, SALA personnel arbitrarily and manually adjusted the hours charged to activities these employees worked on, which led to salary allocations that were not proportional across the cost objectives recorded on the time records. SALA should have allocated the salary for these employees proportionally based on the hours recorded to each cost objective. This ensures that LSC grants are bearing only the proportion of the salaries attributable to actual work conducted on LSC grants.

Salary costs must be allocated to LSC grants based on records that reflect the total activity for which the recipient compensates the employee. Specifically, 45 C.F.R. § 1635.4(a) requires that "Recipients…base allocation of salaries and wages on records that accurately reflect the work performed;" 45 C.F.R. § 1635.4 (a)(3) states that records upon which these salaries are based must "Reflect the total activity for which the recipient compensates the employee." In addition, 45 C.F.R. Part 1630 provides the LSC standards for allowability of costs. 45 C.F.R. § 1630. 5(c)(1) states, "A cost is allocable to a particular cost objective...in accordance with the relative benefits received," and 45 C.F.R. § 1630.5(c)(3) states that "Recipients must maintain accounting systems sufficient to demonstrate the proper allocation of costs to each of their funding sources."

SALA does not have policies for recording time and for proportional allocation of salary when employees work and record hours in excess of the required hours per week.

We determined that if SALA had appropriately allocated all the hours recorded on the timesheets reviewed in our sample testing, it would have charged the Basic Field Grants $373 more than the amount charged.[13]

Because SALA's time record adjustments did not result in the Basic Field Grants being overcharged during the four pay periods sampled, we are not questioning costs associated with

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[12] Using the testing methodology described in Finding No. 1 a.

[13] Because the sample was not statistical, the results cannot be used to project misstatements to the entire population.

this exception. However, we are noting an exception as attorney salaries were not properly charged to all activities on which they worked.

Conclusion

- SALA's unwritten salary policies and procedures are not sufficient to ensure support staff salary costs are appropriately allocated to LSC grants as they do not require support staff to record hours worked by activity.
- The arbitrary method used to allocate salary costs was not supported and did not result in SALA appropriately allocating salary expenses to all benefiting activities.

We are questioning the $17,816 in support staff salary costs charged to the Basic Field Grants. SALA did not have a documented basis to allocate support staff salary costs and instead allocated 80 percent to the Basic Field Grants. The questioned costs are detailed in Table 4. The OIG will refer the questioned amount to LSC Management for review and action.

Table 4: Finding 2 Summary: Inappropriately Allocated Salary Expenses

Description	LSC Award(s)	Questioned Costs
Inappropriately Allocated Support Staff Salaries	Basic Field Grant 2021	$3,863
	Basic Field Grant 2022	$13,953
All Hours Recorded on Time Records Not Appropriately Allocated	Basic Field Grant 2021	$0
	Basic Field Grant 2022	$0
Total		**$17,816**

Recommendations

We recommend that SALA's Executive Director:

3. Update SALA's Accounting Manual to include a specific, compliant method for charging support staff salaries directly to sponsored funding sources as well as policies and procedures to account for hours worked in excess of the SALA 35 hours per week requirement.

4. Once the Accounting Manual is updated, provide training to its accounting staff.

Finding 3: SALA Charged Unallowable Expenses

SALA charged costs that were not allowable per LSC regulation 45 C.F.R. § 1630.5(a), which provides the general criteria for allowable expenditures under an LSC grant or contract (outlined in Footnote 8), or the grant terms and conditions. Specifically, SALA charged $3,904 in unallowable expenses to its COVID-19 Response Grant and the 2022 Basic Field Grant.

LSC 2022 Basic Field Grant Terms and Conditions, 15. Compliance with LSC Laws, Regulations, and Guidance, requires that grantees comply with 45 C.F.R. Parts 1600 - 1644, LSC's applicable appropriations acts, and any other applicable laws, rules, regulations, policies, guidelines, instructions, or other directives from LSC. The COVID-19 Response Grant Special Grant Terms and Conditions, II. A. Scope of Activities, states, "You will use your Special Grant funds for the delivery of civil legal assistance to prevent, prepare for, or respond to coronavirus, domestically or internationally."

a. Unallowable Salary Expenses

SALA employees coded time to the LSC COVID-19 Response Grant for salaries earned performing activities unrelated to COVID-19 legal assistance. The activities coded to the LSC COVID-19 Response Grant included general management and clerical work, timekeeping, general and other matters, supporting activities, and leave.

Of the pay periods selected for testing (see Footnote 5), only one pay period (ending August 27, 2021) included COVID-19 Response Grant labor charges. We tested the three employee timesheets supporting total direct labor costs of $3,571 charged to the LSC COVID-19 Response Grant for that pay period. We determined that none of the descriptions included on the sampled timesheets indicated that the work was for COVID-19 legal assistance. SALA's Executive Director agreed that $3,571 in expenses were improperly charged to the LSC COVID-19 Response Grant. These costs were for LSC eligible activities; however, they were not allowable under the COVID-19 Response Grant and should have been charged and allocated to other grants.

Neither the SALA Accounting Manual nor the SALA Program Policy and Procedures Manual has written timekeeping policies.

b. Unallowable Bar Dues

SALA charged unallowable bar dues to the LSC Native American Grant.

SALA has two accounts to charge bar dues. The two accounts and a description of each follow:

Account Code	Account Description
72600	Bar Dues not allowable LSC [sic]
72610	LSC ALLOWABLE BAR DUES, NOTARY FEES [sic]

SALA's September 2022 cost allocation worksheet shows that bar dues costs coded to the unallowable account were allocated to the LSC Native American Grant.

We tested SALA's quarterly allocations of indirect costs for all eight quarters in 2021 and 2022. We reviewed allocated indirect costs for unallowable expenses. For the quarter ending September 30, 2022, we noted that SALA identified $333 in member bar dues as unallowable but charged this amount to the LSC Native American Grant as indirect costs.

SALA personnel stated that coding the $333 of unallowable bars dues to the LSC Native American Grant was an error. SALA usually records unallowable expenditures to an unrestricted funds account. Because SALA's accounting system does not restrict unallowable account codes from being charged to LSC grants, costs charged to accounts specifically identified as unallowable can still be charged to LSC grants.

Conclusion

- SALA does not have written timekeeping policies and procedures.

- SALA's cost allocation internal controls do not prevent unallowable costs from being charged to LSC grants.

We are questioning $3,904 in unallowable costs charged to two LSC grants, shown in Table 5. The OIG will refer the questioned amount to LSC Management for review and action.

Table 5: Finding 3 Summary: Unallowable Expenses

Description	LSC Award(s)	Questioned Costs
Unallowable Salary Expenses	COVID-19 Response Grant	$3,571
Unallowable Bar Dues	2022 Native American Grant	$333
Total		**$3,904**

Recommendations

We reiterate recommendation 1 for SALA's Executive Director to develop written timekeeping policies and provide training to SALA's staff, including new employees, on proper time charging and timesheet review.

We also recommend that SALA's Executive Director:

5. Update the SALA Accounting Manual with detailed second-party review procedures to ensure that unallowable expenses are not charged to the LSC grants.

6. Once the Accounting Manual is updated with detailed procedures, train applicable SALA staff on the timecard and second-party review procedures.

Finding 4: SALA Did Not Maintain Accurate Accounting Records

LSC recipients like SALA are required to establish and maintain adequate accounting records and control procedures per LSC's Accounting Guide,[14] Chapter 1-5, Responsibilities of Recipients and the Submission of the Annual Financial Statement Audit. The internal control procedures must be designed to ensure the reliability of financial information and reporting.

We found that SALA's indirect cost allocation spreadsheets and its Private Attorney Involvement[15] (PAI) worksheets contained calculation errors that resulted in misstated allocations and/or amounts.

a. Calculation Errors in SALA's Indirect Cost Allocation Spreadsheets

SALA prepares quarterly indirect cost allocation spreadsheets to support the total indirect expenses it allocates to benefitting funding sources. SALA's indirect cost allocation spreadsheets contained unallowable costs and did not include costs that should have been considered indirect (See Findings 1 and 3). Additionally, SALA's indirect cost allocation spreadsheets included calculation errors, as follows:

- SALA's September 2022 and December 2022 indirect cost allocation spreadsheets showed remaining indirect cost balances of $39,316 and $14,773, respectively, that were allocable to the LSC Basic Field Grants. These indirect cost balances should have been, but were not, charged to those grants on SALA's general ledger.

- The March 2022 indirect cost allocation spreadsheet understated allocations for one SALA office. The amount recorded in the general ledger to the Native American Grant was understated by $6,217. As a result, SALA's remaining allocation entries were overstated by this amount.

As these calculation errors did not result in the 2022 LSC grants being over-charged, we are not questioning any costs associated with these exceptions.

[14] Effective January 1, 2023, the LSC Accounting Guide was superseded by the LSC Financial Guide. Because the audit scope ended December 31, 2022, the LSC Accounting Guide was the criteria in effect for this audit. We ensured that all recommendations and information are also consistent with the LSC Financial Guide.
[15] LSC regulation 45 C.F.R Part 1614 requires recipient to expend an amount equal to 12.5 percent of its Basic Field Grant for private attorney involvement (PAI) in providing legal assistance and legal information to eligible clients.

b. Understated PAI Expenses

SALA prepares PAI worksheets to support its compliance with the requirement that it expend at least 12.5 percent of its Basic Field Grant funding in support of its PAI program (outlined in Footnote 15). Although SALA's 2021 PAI worksheet supported its compliance with PAI requirements, a calculation error in that worksheet resulted in SALA not accurately reporting its PAI program expenses. Specifically, SALA's 2021 PAI worksheet calculation excluded $71,052 of paralegal salaries and related fringe benefits incurred on PAI. This resulted in SALA understating the amount by which its PAI expenses exceeded the PAI threshold.

As SALA incurred sufficient expense to meet the PAI threshold, we are not questioning any costs associated with this exception.

Conclusion

- SALA has not implemented sufficient quality control requirements surrounding its cost allocation procedures and its procedures for preparing PAI worksheets. As a result, the monthly management cost reports or PAI reports may be inaccurate.

These exceptions did not result in unallowable costs charged to LSC grant awards, so we are not questioning any costs.

Recommendation

We recommend that SALA's Executive Director:

7. Develop detailed review procedures and/or checklists to be used in oversight reviews of records created to support accounting entries and/or compliance assessments.

FINDING 5: SALA'S GOVERNING BODY IS NOT APPROPRIATELY COMPOSED

SALA's board composition is not consistent with 45 C.F.R. § 1607.3(c). requirements, which state that at least one-third (or 33 percent) of the members of an organization's governing body are required to be eligible client members[16] when initially appointed by the recipient. We found that only 5 of SALA's 19 Board of Directors (BOD) members, or 26 percent, were eligible client members when appointed to the board. The remaining 14 members of SALA's BOD were attorneys.

SALA's Executive Director explained that its current BOD has two vacancies and provided correspondence with its response to our draft audit report (Appendix A), documenting its efforts to fill the open eligible client member positions. Although SALA's response supported

[16] Eligible client members are those individuals that were financially eligible to receive LSC legal assistance.

its search for eligible client members, its board composition does not comply with LSC regulations until these positions are filled, and the response doesn't explain how SALA will ensure its board is appropriately composed in the future.

Conclusion

- At the time of our audit, SALA 's BOD did not have the required number of eligible client members. We further noted that SALA's Policy Manual does not address the LSC requirement for eligible client members.

Recommendations

We recommend that SALA's Executive Director:

8. Update SALA's policy to include the LSC requirements on its BOD composition.

OTHER MATTER: SALA USED SURPLUS NATIVE AMERICAN GRANT FUNDS TO REDUCE A BASIC FIELD GRANT FUND DEFICIT IN 2022

SALA's 2022 revised audited financial statements[17] present SALA's 2021 ($594,061) deficit in Basic Field Grant funding and $1,041,507 surplus in Native American Grant funding as a net $447,446 carryover to 2022 Native American Grant funding. Based on SALA's financial statements, it effectively transferred the 2021 Basic Field Grant deficit to Native American funding. Although LSC's 2022 Basic Field Grant terms and conditions and other regulations applicable in 2022 do not specifically address the grantees' ability to transfer funds between service areas or use Native American funding for general Basic Field Grant activities, we believe it is evident that Native American funds are not intended to cover deficits in SALA's general Basic Field Grant funding based on the following authoritative sources:

- LSC's website includes a description of LSC service areas (LSC Service Areas | LSC - Legal Services Corporation: America's Partner for Equal Justice). The section on Native American Grants states that "Grants for Basic Field-Native American service areas are intended to provide legal services to Native Americans living in a specific geographical area, related to their status as Native Americans. Native American service area grants address issues that arise from their status as Native Americans or that are cognizable in Indian law and tribal court."

- LSC's Summary of Formula for FY 2022 Grant Allocation for the Basic Field Grant Program states that LSC's grant allocation method is based on the requirements of the

[17] SALA's independent auditors revised SALA's financial statements in June 2023 in response to OIG desk review questions on SALA's initial 2022 financial statement submission.

> 1996 Appropriations Act. Section 501(a)(2) of the Appropriations Act[18] states that "Funds for grants from the Corporation, and contracts entered into by the Corporation for basic field programs, shall be allocated so as to provide…. B) an additional amount for Native American communities that received assistance under the Legal Services Corporation Act for fiscal year 1995, so that the proportion of the funds appropriated to the Legal Services Corporation for basic field programs for fiscal year 1996 that is received by the Native American communities shall be not less than the proportion of such funds appropriated for fiscal year 1995 that was received by the Native American communities."

Further, to clarify this position, LSC's Financial Guide (effective January 1, 2023), states that "General Basic Field Grants are for services to all eligible people in the service area. Native American and agricultural worker grants are limited to serving those populations in the service area (who may also be served through the general grant)."

SALA's 2019 financial statements show that a Basic Field Grant deficit was initially recorded that year. SALA's 2020, 2021, and original 2022 financial statements also included the Basic Field Grant deficit and the Native American Grant surplus. In 2022, SALA's newly hired independent public accountant (IPA), issued revised financial statements where the Basic Field Grant deficit was offset using the Native American Grant surplus.

SALA's Controller was not aware of this change and could not explain why the amounts were netted. SALA's Controller also said that he was not employed by SALA in 2019 and did not know the reason for the deficit. We note that the Fiscal Year 2022 Fund Balance Waiver Request SALA submitted to LSC states the reason for the fund balance waiver request is that "SALA experienced an historical amount of attorney turnover in Fiscal Year 2021/2022 and in [sic] the process of returning the operation to normal staffing, a number of our staff were new and unaccustomed to coding their time appropriately to grants including LSC. A large part of our issue was the amount of expenses being charged using allocable too often. In addition, a number of clients are ineligible for LSC funding due to state and local wage ordinances that are well above the federal poverty guidelines based on federal minimum wage. Both the State of Arizona and City of Tucson minimum wages are above the federal minimum wage."

We sent questions to SALA's IPA asking why they netted the December 31, 2021, Basic Field Grant deficit and the 2021 Native American Grant excess. The IPA explained that they had recorded the net carryforward based on their understanding of SALA's predecessor auditors' workpapers.

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[18] Omnibus Consolidated Rescissions and Appropriations Act of 1996, Pub. L. 104-134, 110 Stat. 1321, 1321-51 (1996), incorporated by reference in subsequent appropriations acts, including FY 2022.

Neither SALA nor the IPA requested LSC approval to transfer Native American Grant funds to cover deficient Basic Field Grant funds. Further, the transfer shown in the financial statements was not recorded on SALA's general ledger or in their accounting records. Per LSC's Accounting Guide, section 2-1.2 "A recipient's accounting records should support the amounts disclosed in the financial statements". The LSC Financial Guide, at section 2.1.2 states that "LSC recipients are required to maintain a fund-based accounting system for all funds that supports activity and amounts reported in the audited financial statements."

Other Matter Conclusion

SALA's IPA firm offset SALA's 2021 ($594,061) Basic Field Grant deficit with the excess 2021 Native American Grant funds. SALA's use of excess Native American Grant funds to cover its Basic Field Grant deficit could hamper SALA's ability to provide future legal services to Native American populations and potentially result in using Native American Grant funds to subsidize non-Native American Grant activities. This offsetting is also not compliant with LSC's Financial Guide (effective January 1, 2023), section 1.2.1.a, which states, "Native American and agricultural worker grants are limited to serving those populations in the service area…".

SALA's reported fund balances are not recorded by service area in its general ledger.

Other Matter Suggestions for Consideration

We suggest SALA's Executive Director:

1. Restate SALA's 2022 and 2023 financial statements to properly record the 2021 fund balance carryforward amounts between the general Basic Field and Native American service areas.

2. Develop a plan to eliminate the Basic Field Grant deficit and coordinate with LSC as needed.

3. Separately record grant deficit or excess funds in the accounting records.

SIKICH EVALUATION OF GRANTEE MANAGEMENT COMMENTS

On September 17, 2024, SALA responded to the OIG's Draft Report, partially agreeing with recommendation 1, agreeing with recommendations 2 through 7, and disagreeing with recommendation 8. SALA also agreed with the three suggestions for consideration. Specifically, for:

- **Recommendation 1.** SALA noted that it only partially agreed with this recommendation as it had provided prior written guidance to its staff for charging leave and holiday time prior to this audit.
- **Recommendations 2 – 7.** SALA agreed with these recommendations and included plans to update its policies and procedures, provide training and to create a Grants Compliance Officer position to ensure future compliance with applicable regulations.
- **Recommendation 8**. SALA disagreed with recommendation 8 because, at the time of audit, it was actively seeking replacement client board members.

SALA's responses are included in their entirety in **Appendix A**.

Auditor Evaluation of SALA Responses to Recommendations

The audit team considers SALA's proposed actions to implement recommendations 2 through 7 as documented within its Recommendation Tracking spreadsheet, as responsive to the audit findings. We also consider SALA's proposed action to address our suggestions for consideration (labeled as suggestions 1 - 3) responsive to the other matter. However, we noted the following with respect to the comments provided for recommendations 1 and 8:

- **Recommendation 1.** SALA partially agreed with this recommendation, noting that it did not need to create the recommended procedures because it provided written procedures for charging leave, holiday, and other non-case activity time to staff in August 2022. However, SALA did agree to incorporate its August 2022 procedures into its Accounting Manual. We have the following observations regarding this response:

  - Although SALA stated that in August 2022 it provided a written procedure with instructions to staff for charging leave, holiday time and other non-case activity time, because Finding 1.a. includes 366 leave and holiday hours charged as direct by 23 employees in the pay period ending November 18, 2022 – several months after SALA produced its written procedure, we do not believe the prior guidance provided is sufficient to address our recommendation.

  - Although SALA noted that it has included its new procedures in its onboarding process and that it has incorporated its new procedures into its Accounting

Manual,[19] we believe it would be more appropriate for SALA to update the timekeeping guidance within its Personnel Manual as it is more likely to be used by SALA staff when they are completing their timesheets.

- **Recommendation 8**. SALA disagreed with this recommendation, asserting that it always complied with these requirements because it was actively seeking replacement client board members. We have the following observation regarding this response:
    - Although SALA provided documentation to support its attempts to fill open positions, SALA's Board is not compliant until the vacant client board positions are filled.

  After SALA responded to the draft report, its Executive Director provided SALA's by-laws which include LSC's board composition requirements. The OIG has determined that there is no further action required for this recommendation (Appendix E).

The OIG reviewed SALA's response to the draft report to determine whether the eight recommendations and three suggestions for consideration will remain open or whether any can be closed. The OIG's evaluation is in **Appendix E**.

Sikich CPA LLC

November 21, 2024

[19] SALA's Accounting Manual addresses its accounting principles and its financial policies and procedures and generally only used by SALA's administrative staff when performing their daily responsibilities.

APPENDIX A: SALA'S MANAGEMENT RESPONSE

SOUTHERN ARIZONA
LEGAL AID, INC.

September 17, 2024

Carol Bates
LSC OIG Audit Manager
Office of Inspector General
Legal Services Corporation
3333 K Street, NW 3rd Floor
Washington, DC 20007-3558

Re: SALA - RNO 703050 – Response to Draft Audit Report

Dear Ms. Bates,

Southern Arizona Legal Aid Inc., (SALA) is in receipt of the Office of Inspector General (OIG) Draft Report on the Performance Audit of SALA's LSC Grant and Compliance with LSC Grant Requirements for the period 2021 and 2022. We plan to adopt and incorporate your recommendations and suggestions. We appreciate your support in helping to ensure that SALA has adequate internal controls for its operations. SALA's responses to the recommendations and suggestions are below and attached. We thank you and your team for your professionalism and dedication in working with SALA staff and providing guidance.

Findings and SALA's Response to Recommendations:

Finding 1:

SALA inappropriately charged indirect expenses as direct costs.

Recommendations:

1. Develop written timekeeping policies and procedures, including timesheetreview, and provide training to SALA staff and to new employees on charging leave and holiday time.

2. Provide training to all SALA employees involved in coding costs as direct or indirect. The training should include the definitions of direct and indirect costs and should contain explicit guidance on how to account for each type ofexpense.

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SALA's Response to Recommendation 1: SALA partially agrees with this recommendation because prior to this Audit SALA provided written procedures to staff providing guidance for charging leave, holiday time and other non-case activity time.

SALA's Response to Recommendation 2: SALA agrees with this recommendation and provided training to staff in July, 2024, at SALA's Annual All Staff Training.

Finding 2:

SALA did not appropriately allocate salary expenses.

Recommendations:

3. Update SALA's Accounting Manual to include a specific, compliant method for charging support staff salaries directly to sponsored funding sources as well as policies and procedures to account for hours worked in excess of the SALA 35 hour per week requirement.

4. Once the Accounting Manual is updated, provide training to its accounting staff.

SALA's Response to Recommendation 3: SALA agrees with this recommendation, is updating its Accounting Manual and has begun reclassifying Intake worker staff so that they are required to keep time pursuant to CFR 1635 and SALA's policies. SALA will develop a methodology to account for staff not reclassified, as well as develop a methodology for charging staff work hours in excess of SALA's 35-hour work week.

SALA's Response to Recommendation 4: SALA agrees with this recommendation, provided training to new staff hired in its Accounting Department to address compliance issues, and will update the training for staff once the Accounting Manual is updated.

Finding 3: SALA charged unallowable expenses.

Recommendations:

5. Update the SALA Accounting Manual with detailed second-party review procedures to ensure that unallowable expenses are not charged to the LSC grants.

6. Once the Accounting Manual is updated with detailed procedures, train applicable SALA staff on the timecard and second-party review procedures.

SALA's Response to Recommendation 5: SALA agrees with this recommendation, and is updating its Accounting Manual to include review procedures to ensure that unallowable expenses are not charged inappropriately. SALA also hired additional staff in its Accounting Department to address compliance.

SALA's Response to Recommendation 6: SALA agrees with this recommendation, added staff to its Accounting Department in 2024, to conduct compliance reviews, and will provided training to staff once the Accounting Manual is updated.

Finding 4: SALA did not Maintain accurate Accounting records.

Recommendations:

7. Develop detailed review procedures and/or checklists to be used inoversight reviews of records created to support accounting entries and/or compliance assessments.

SALA's Response to Recommendation 7: SALA agrees with this recommendation, and earlier this year created a Grants Compliance Officer position to oversee billing, accounting entries and to conduct compliance assessments.

Finding 5: SALA's Governing body is not appropriately composed.

Recommendations

8. Update SALA's policy to include the LSC requirements on its BOD composition.

SALA's Response to Recommendation 8: SALA disagrees with this recommendation because while SALA had client board member vacancies at the time of this audit it was actively seeking replacement client board members. At the time of the Audit SALA had 21 board seats and 7 were dedicated to client eligible members of which 2 seats were declared by the Board to be vacant resulting in SALA having to seeking replacements. See attached Exhibits.

Suggestions for Consideration:

1. Restate SALA's 2022 and 2023 financial statements to properly record the 2021 fund balance carryforward amounts between the general Basic Field and Native American service areas.

2. Develop a plan to eliminate the Basic Field Grant deficit and coordinate with LSC as needed.

3. Separately record grant deficit or excess funds in the accounting records.

SALA's Response to Suggestion 1: SALA agrees and instructed its auditor to restate SALA's 2022 and 2023 financial statements to properly record 2021 fund balance carryforward amounts between LSC Basic Field and Native American service areas.

SALA's Response to Suggestion 2: SALA agrees, has developed and is instituting its plan to eliminate its Basic Field Grant deficit and will work with LSC as needed.

SALA's Response to Suggestion 3: SALA agrees, and going forward SALA will separately record grant deficits and/or excess funds in its accounting records.

Should you have and additional questions or need information please contact me or Michael Kochanski.

Sincerely,

Anthony L. Young, Esq.
Executive Director
SOUTHERN ARIZONA LEGAL AID INC.

APPENDIX B: OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The LSC OIG engaged Sikich CPA LLC (herein referred to as "we"), to conduct an audit. The objectives of our audit were to assess the effectiveness and efficiency of SALA's operations and oversight, including program expenditures, fiscal accountability, and compliance with LSC regulations as well as grant terms and conditions applicable to SALA's LSC grant awards during the audit period.

SCOPE

The audit population included approximately $6,340,917 in expenses SALA charged to Basic Field Grant funding from January 1, 2021, through December 31, 2022, $35,551 charged to COVID-19 Response grant funding from January 1, 2021, through December 31, 2021, and $19,520 charged to its Telework Capacity Building grant from March 1, 2020, through August 31, 2020.

METHODOLOGY

After obtaining the OIG's approval for our audit plan, we performed each of the approved audit steps. Generally, these steps included:

- Assessing the reliability of the general ledger data SALA provided by comparing the costs charged to LSC grants per SALA's accounting records to the reported expenditures in SALA's audited financial statements.
    - We found SALA's computer-processed data to be sufficiently reliable for the purposes of this audit. We did not review or test whether the data contained in SALA's databases or the controls over SALA's databases were accurate or reliable.

- Testing judgmentally sampled grant expenditures to supporting documentation, to verify that the expenses were incurred while executing the grant, were reasonable and necessary, were adequately documented, and complied with all relevant LSC and federal regulations.

- Obtaining and testing documentation to support SALA's compliance with LSC requirements regarding Basic Field Grant fund balance carryovers, assignment of LSC-related funds to other entities, delegation of LSC funds to subrecipients, and Private Attorney Involvement expenditures.

- Verifying that derivative income and attorney fees were properly allocated and recorded to LSC funds, if applicable.

- Verifying that SALA complied with LSC requirements for maintaining LSC investments and client trust funds.

- Testing a sample of clients to verify that they met LSC financial and citizen eligibility requirements.

- Testing a sample of LSC-funded cases to ensure that the cases did not involve restricted activities.

- Verifying that SALA complied with the specific terms and conditions of each LSC grant.

- Conducting virtual interviews with SALA personnel in Tucson, Arizona to discuss its policies and procedures.

In planning and performing this audit, we considered SALA's internal controls within the audit's scope solely to understand the directives or policies and procedures SALA has in place to ensure that charges against LSC grants comply with relevant federal regulations, LSC award terms and conditions, and SALA policies.

To select our samples for testing, we used a non-statistical methodology. 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.

At the conclusion of our fieldwork, we provided a summary of our results to OIG personnel for review. We also provided the summary to SALA personnel to ensure SALA was aware of each of our findings and that it did not have additional documentation to support the questioned costs.

At the OIG's request, we performed additional testing of an LSC funding deficit transferred from the SALA Basic Field Grant to the Native American Grant per the notes to SALA's 2022 financial statements. As a result of this testing, we are reporting our findings under "other matter".

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C: SUMMARY OF QUESTIONED COSTS

Appendix C, Table 1: Schedule of Questioned Costs by Finding and by Award

Finding	Description	Questioned Costs			Total
		2021 Basic Field	*2022 Basic Field*	*COVID-19 Response*	
1	SALA Inappropriately Charged Indirect Expenses as Direct Costs	$11,544	$15,623	$0	$27,167
2	SALA Did Not Appropriately Allocate Salary Expenses	$3,863	$13,953	$0	$17,816
3	SALA Charged Unallowable Expenses	$0	$333	$3,571	$3,904
Total		**$15,407**	**$29,909**	**$3,571**	**$ 48,887**

The OIG will refer these questioned costs to LSC Management for review and action.

APPENDIX D: SUMMARY OF RECOMMENDATIONS

We recommend that SALA's Executive Director:

1. Develop written timekeeping policies and procedures, including timesheet review, and provide training to SALA staff and to new employees on charging leave and holiday time.

2. Provide training to all SALA employees involved in coding costs as direct or indirect. The training should include the definitions of direct and indirect costs and should contain explicit guidance on how to account for each type of expense.

3. Update SALA's Accounting Manual to include a compliant method for charging support staff salaries directly to sponsored funding sources as well as policies and procedures to account for hours worked in excess of the SALA 35 hours per week requirement.

4. Once the Accounting Manual is updated provide training to its accounting staff.

5. Update the SALA Accounting Manual with detailed second-party review procedures to ensure that unallowable expenses are not charged to the LSC grants.

6. Once the Accounting Manual is updated with detailed procedures train applicable SALA staff on the timecard and second-party review procedures.

7. Develop detailed review procedures and/or checklists to be used in oversight reviews of records created to support accounting entries and/or compliance assessments.

8. Update SALA's policy to include the LSC requirements on its BOD composition.

We also suggest that SALA's Executive Director consider:

1. Restating SALA's 2022 and 2023 financial statements to properly record the 2021 fund balance carryforward amounts between the general Basic Field and Native American service areas.

2. Developing a plan to eliminate the Basic Field Grant deficit and coordinate with LSC as needed.

3. Separately recording grant deficit or excess funds in the accounting records.

APPENDIX E: LSC OIG'S EVALUATION OF SALA'S MANAGEMENT RESPONSE

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

On September 17, 2024, SALA responded to the OIG's Draft Report, agreeing with six recommendations, partially agreeing with one recommendation, and disagreeing with one recommendation. Also, SALA agreed with the three suggestions for consideration and provided the actions it plans to implement them. For the recommendations with which they agreed, SALA included plans to update policies and procedures and conduct training to ensure compliance and improve efficiency. SALA also created and filled a Grants Compliance Officer position. They stated that this employee will oversee billing, verify account entries, and conduct compliance assessments.

Although SALA partially agreed with Recommendation 1, their proposed action was responsive. They plan to make their written procedure for charging leave, holiday time, and other non-case activity time available to all employees. SALA disagreed with Recommendation 8, related to updating their written policies to include the LSC board composition requirement. After reviewing the grantee's response, the OIG followed up via phone call to SALA and spoke to the Executive Director. He stated that Board of Director's composition was addressed in the SALA by-laws and provided a copy of them. We consider this recommendation to be closed.

SALA's responses are included in their entirety in Appendix A.

The OIG determined that SALA's proposed actions address Recommendations 1 - 7. These seven recommendations will remain open until the OIG is provided with evidence of the strengthened procedures and policies detailed below. The documentation needed to close these recommendations is listed below.

Appendix E, Table 1: List of Supporting Documentation[20]

Recommendation No.	List of Supporting Documentation Required to Close Recommendation
1	Timekeeping procedures that are available to all employees, for example in a Personnel Manual.
2	Documentation that the training took place and include the information presented (direct vs. indirect, how to account for each etc.) and list of attendees.

[20] These items are due to the OIG within six months from the date of the final report or by June 10, 2025

Recommendation No.	List of Supporting Documentation Required to Close Recommendation
3	Updated Accounting Manual sections for charging support staff time and accounting for all hours worked.
4	Documentation of training, including list of attendees, and the materials presented.
5	Updated Accounting Manual that includes information on unallowable costs and how to record them.
6	Documentation that training took place on timecard review and second-party review of transactions.
7	Procedures and/or checklists used to review accounting records (for example cost allocation, PAI, etc.) and evidence that they are implemented.

We will refer the questioned costs of $48,887 to LSC Management for further review and action. The questioned costs result from Findings 1 through 3:

- SALA inappropriately charged indirect expenses totaling $27,167 as direct costs per 45 C.F.R. § 1630.5.
- SALA did not appropriately allocate salary expenses in accordance with 45 C.F.R. § 1630.5, and 45 C.F.R. § 1635.4. The difference between what SALA charged and what Sikich calculated results in questioned costs of $17,506.
- SALA charged unallowable expenses totaling $333 in violation of 45 C.F.R. § 1630.5(a) and LSC grant terms and conditions.