



Office of Inspector General
Legal Services Corporation

Inspector General
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July 07, 2015

Wilhelm H. Joseph
Executive Director
Legal Aid Bureau, Inc.
500 East Lexington Street
Baltimore, MD 21202

Dear Mr. Joseph:

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

The OIG considers the proposed actions to address Recommendations 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 in the report as responsive. Although the grantee partially agreed with Recommendation 12, the OIG accepts the reasoning provided by grantee management for partial acceptance. All 12 recommendations will remain open until the OIG receives written notification that the grantee has updated and implemented its policies and procedures.

The grantee's comments are not completely responsive to Recommendation 1. The grantee's suggested update of their policy is responsive. However, the proposed action does not demonstrate that attorneys' fees will be allocated based on time spent by the attorney on the case according to 45 CFR Part 1609. We will refer this recommendation to LSC Management for their review and resolution.

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

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings, Vice President
For Grants Management

Legal Aid Bureau
Warren S. Oliveri, Jr.
Board Chairperson

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL
CONTROLS**

LEGAL AID BUREAU

RNO 321016

Report No. AU 15-08

July 2015

www.oig.lsc.gov

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INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Legal Aid Bureau, Inc. (LAB, or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Baltimore, MD and at LSC headquarters in Washington, DC.

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

[T]he process put in place, managed and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:

1. safeguarding of assets against unauthorized use or disposition;
2. reliability of financial information and reporting; and
3. compliance with regulations and laws that have a direct and material effect on the program.

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

BACKGROUND

The Legal Aid Bureau, established in 1911, is a nonprofit organization organized for the purpose of providing legal assistance in non-criminal proceedings and matters to persons financially unable to afford private counsel based on criteria established by LAB and its funding sources. LAB serves Baltimore City and Maryland's 23 counties from its 13 office locations.

According to the audited financial statements for the fiscal year ended December 31, 2013, approximately 13 percent of the grantee's total funding was provided by LSC. LAB received total revenue of \$27,417,236, of which \$3,698,159 was grant income from LSC.

OBJECTIVE

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

AUDIT FINDINGS

To accomplish the audit objective, the OIG reviewed and tested internal controls related to cash disbursements, credit cards, cost allocation, contracting, fixed assets, derivative income, employee benefits, client trust funds and internal reporting and budgeting.

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

DERIVATIVE INCOME

Attorneys' Fees

LAB has written policies and procedures in the LAB Accounting & Financial Policies and Procedures Manual for allocating attorneys' fees that do not appear to accurately capture the requirements contained in 45 CFR §1609.4 (a). In addition, the grantee's practice for allocating attorneys' fees is not in compliance with the requirements of the regulation. Per the grantee's Accounting & Financial Policies and Procedures Manual, and the grantee's practice, the allocation is done based on the proportion of LSC FTE hours to the local office total FTE's.

45 CFR §1609.4 (a) states:

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

A review of the attorneys' fees received by the grantee revealed that \$2,500 was received during the audit period of which \$444.86 was allocated to LSC based on the LSC FTE as a percentage of the total FTE.

The LAB Controller stated that this methodology was selected because it appears to be equitable.

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

Recommendation 1: The Executive Director should revise the written policies and procedures for attorneys' fees to meet LSC requirements and comply with the regulation.

FIXED ASSETS

LAB's Accounting & Financial Policies and Procedures Manual details policies and procedures that are in accordance with the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide and the Property Acquisition and Management Manual (PAMM). However, some of the specified information required by Appendix II of the Accounting Guide is not included in LAB's Accounting & Financial Policies and Procedures Manual. Items missing from the manual within the fixed assets record include the check number, funding source, identification number, fair value, method of valuation (if donated), and the salvage value, if any. A review of LAB's property records revealed that all elements required were properly detailed in the specific property records.

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

Tracking of IT Equipment

Although not capitalized, the grantee should track IT equipment. The LSC Accounting Guide states that the grantee should be mindful of items that may contain sensitive information (i.e., a computer containing client confidential information) with values less than \$5,000, as well as the need to inventory these items and dispose of them properly. Hence, electronic items such as laptops, iPads and cellphones were tested. The Director of Technology maintains an Access database that tracks all IT equipment. Our review of the grantee's controls over electronic items revealed areas needing improvement. The Access database documented 13 laptops in the Baltimore office.

The OIG selected three laptops from the list to vouch for the actual laptops. LAB was unable to locate one of the laptops during the audit visit.

The Director of Technology stated the laptop may have been disposed of, but could not confirm since the individual who maintained the disposal log was out of the office for an extended illness.

In addition, the grantee maintains an online record for tracking cellphones, iPads, tablets and other devices requiring a data plan. The online record is from the service provider and lists the telephone number, device type and the user of the device. The OIG cross-referenced the online record to the Inventory Database and discovered that although most of the data matched, the online record did not list the correct user for one of the devices listed.

Without an adequate and complete tracking system for all its electronic items, there is no assurance the grantee is properly safeguarding the equipment and the information contained therein.

Recommendations: The Executive Director should:

Recommendation 2: ensure the fixed assets policies and procedures in the Accounting & Financial Policies and Procedures Manual fully capture applicable requirements detailed in the LSC Accounting Guide.

Recommendation 3: ensure that updated information is maintained in the Access database and the online tracking record.

CONTRACTING

The grantee's written policies and procedures involving soliciting and awarding contracts were in accordance with the *Fundamental Criteria*. However, detailed testing revealed the contracting policy was not consistently applied in practice.

The LSC OIG performed detailed testing of 15 contract vendors. The total disbursement amount for the period tested was \$1,722,418. The results of the testing revealed the following:

Retaining Written Documentation or Justification

The grantee awarded nine contracts without fully documenting the process used for each contract action.

- Two of the nine were sole source contracts. The two contracts were paid a total of \$164,522 during the audit period. There was no documented justification as to why the contracts were awarded without competition. Grantee management

stated that due to past associations with one of the consultants, management determined these consultants were the best fit.

- Six of the nine contracts were competitively bid. The six contracts were paid a total of \$543,549 during the period under review. The process used for each contract action was not fully documented and maintained on file. A written explanation was provided during the audit; however, this information needs to be documented at the execution of the contract.
- One of the contracts, for lobbying and government relations services, had no supporting documentation provided indicating how the contract was acquired or the specific services provided. This contract was paid a total of \$25,949 during the audit period. LAB needs to ensure that contract terms are specific and deliverables are documented, especially when procuring services that may contain LSC prohibited services such as lobbying.

LAB personnel stated that they did not have documents to support the action because they were not aware that the information was required to be maintained on file. By not documenting the justification, it's not clear whether the grantee received the best price and service available for the money spent.

Central Filing of Contracts

The contracts and related documentation were not centrally filed. Although the Director of Technology and Director of Administration had some documents in their offices, other documentation was obtained from correspondence emails and offsite locations.

No Contracts on File

Three of 15 contracts tested, totaling \$97,889 per the 2014 check register, did not have a written contract on file. The Director of Technology stated that two of the vendors were old and there were no contracts or documentation on file. For the third vendor, a quote and purchase order were provided; however, no contract was provided.

Unsupported Payment Amount

One of 15 contracts, totaling \$31,724, had payments not supported by the contract provided. The amount on the purchase order and invoice was not reflected on the contract. In addition, the contract provided was over 10 years old and payments were made to a vendor different than the one listed on the contract. The Director of Technology stated the initial vendor of the case management system was acquired by the current vendor; however, the maintenance contract was never updated.

Conflicting Contract Document

One of the 15 contracts, totaling \$29,918, had a conflicting written agreement. The service period was prior to the contract date. In addition, the contract was not signed by LAB. The service period began on 1/1/14 but the contract date was 11/13/14.

The LSC *Fundamental Criteria*, section 3-5.16 requires that the process used for each contract action be fully documented and the documentation maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure the deliverables are completed. Documents to support competition should be retained and kept with contract files.

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

Recommendations: The Executive Director should:

Recommendation 4: ensure that contracting practices adhere to LAB's written contracting policies and procedures as well as LSC requirements including:

- documentation maintained is complete with the process used for each contract action;
- there is adequate support for competition or sole sourcing of the contract; and
- the documentation is maintained in a central file.

Recommendation 5: familiarize staff with the LSC Accounting Guide contract criteria to ensure that all requirements are met, including documentation of the contracting process, rationale and decisions made.

Recommendation 6: create a centralized filing system for all contracts, where a file is established for a specific contract containing all pertinent documents related to the solicitation, including receipt and evaluation of bids, and the award of the contract.

Recommendation 7: ensure all products and services obtained or performed within specific, agreed-upon terms are supported by a valid formal agreement.

Recommendation 8: ensure all invoices paid to contractors are supported by a valid contract within the specified timeframes and rates.

DISBURSEMENTS

Written policies and procedures were in accordance with LSC's *Fundamental Criteria*. In general, most disbursements were properly approved and allowable. However, some disbursements did not have adequate required documentation. As a result, 32 transactions were found that lacked adequate support.

Of the 32 transactions:

- 28 transactions totaling \$463,723¹ were not adequately supported because a contract did not exist or the contract provided by the grantee was not adequate.
- 1 transaction totaling \$5,667 for lobbying and government relations services did not have adequate invoices sufficiently detailing the work performed by the vendor.
- 3 transactions totaling \$8,493 did not have a purchase order attached to the invoice as supporting documentation prior to payment.
 - As explained by staff, two transactions did not have a purchase order because someone other than Purchasing Coordinator placed the order. One transaction had the purchase order initiated in the Accounting system, Accufund, but it was not attached as supporting documentation.

The Controller explained the transactions that did not have a purchase order attached were an oversight by the Accounting staff while processing the disbursement.

Absence of a contract, including the statement of work and a mutually agreed upon contract price, limits management's ability to monitor the work performed and the ability to prevent or detect potential for fraud and/or misuse. In addition, if the Purchasing Coordinator does not properly initiate and document purchase orders in Accufund, management cannot adequately monitor purchases, which increases the potential for fraudulent charges and misuse of the organization's funds.

Chapter 3-5.4(d), of the *Fundamental Criteria* states that disbursements require adequate documentation supporting the reason for each disbursement contained in the files. LAB's policy clearly states that a purchase order system will be utilized and a properly completed purchase order is required for each purchase decision.

The OIG is not questioning the costs associated with these transactions because value was received. The OIG however, is recommending that policies and procedures must be followed to protect the interests of the grantee and to ensure that the grantee is in compliance with LSC policy and regulations.

¹ One of the transactions included in this amount was for \$318,300 relating to the grantee's air conditioning system

Recommendations: The Executive Director should ensure that:

Recommendation 9: invoices received from vendors provide sufficient details of the goods and/or services rendered for each line item listed on the invoice(s).

Recommendation 10: all orders are initiated by a purchase order and that the purchase order is attached to the packing slip as well as the invoice/statement prior to payment.

CREDIT CARDS

LAB's policies and practices over credit cards are mostly comparable to LSC's *Fundamental Criteria*; however, the written policy does not include the following items:

- credit card issuance policy;
- procedures acknowledging receipt of an American Express card by the cardholder; and
- a spending limit defined for the cards.

Although LAB specified a spending limit on Chase Credit Cards and M&T Bank Credit cards, it does not have a similar limit on American Express cards issued to staff members. The Controller stated at the exit conference that American Express does not have a specified limit on their charge cards. However, the OIG contacted American Express Card Services and was informed that although American Express cards may not have a pre-set spending limit at the time of issuance, limits and restrictions may be created by the account holder.

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

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

In addition, 10 credit card disbursements consisting of 86 transactions were reviewed that showed:

- Two transactions that did not have adequate support and lacked requisite approval; and
- Six did not have appropriate timely approval prior to payment.

Maintaining adequate supporting documentation for expenditures and appropriate approvals ensures disbursements are made with the knowledge of an appropriate level of management.

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

Recommendations: The Executive Director should:

Recommendation 11: enhance written policies for credit cards to include policies for issuance, procedures for acknowledging receipt, and documented spending limits for all credit cards.

Recommendation 12: ensure credit card transactions have the requisite approval at the appropriate level of management and that approvals are performed prior to making payments.

CASH RECEIPTS LOG

LAB's documented policies over cash receipts are comparable to the *Fundamental Criteria*; however, we found the grantee's practice needs to be improved.

There is no log used specifically for cash receipts. The log in use is a general mail log that documents all types of incoming mail received, not just the checks or cash items in particular. A review of the log indicates that at the time of the OIG's fieldwork it was not being updated regularly as the last update was September 2014. The checks are endorsed by the Executive Assistant and hand delivered to the Finance Department that maintains a daily deposit record of all checks deposited.

The Executive Assistant stated that it was difficult to keep the log up to date in her absence. There are two other assistants that receive mail in the absence of the Executive Assistant; however, they do not have access to the log.

LAB's Accounting and Financial Policies and Procedures Manual states that all checks are restrictively endorsed and entered into the "cash receipts log." Lack of adequate controls over cash receipts may result in cash not being recorded and deposited.

Recommendation: The Executive Director should:

Recommendation 13: enforce the use of cash receipts logs as set forth in the LAB Accounting and Financial Policies and Procedures Manual.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

For Recommendation 1, Grantee management stated that they will revise LAB's Accounting and Financial Policies and Procedures Manual to make clear that, in accord with 45 CFR § 1609.4 (a), legal fees awarded and received in association with legal representation involving a LSC eligible case, supported in whole or in part with funds provided by LSC, shall be allocated as derivative income to the LSC grant fund in the same proportion that the amount of LSC funds expended bears to the total amount expended in association with the representation. The proposed action references comparison of General Ledger costs allocated to LSC at the responsible office to the total General Ledger costs of that office, during the same period of time.

Grantee management agreed with the 11 remaining recommendations contained in the report and partially agreed with Recommendation 12.

Grantee management will revise its Accounting and Financial Policies and Procedures Manual to incorporate into the manual's language descriptions of fixed asset property records which include all information required by Appendix II of the LSC Accounting Guide. In addition, grantee management is in the process of instituting several improvements to its policies and procedures related to tagging, record keeping and tracking of IT and communication equipment that is not capitalized.

Grantee management stated that they are in the process of reviewing and updating contract files with the goal of assuring that contracts and supporting documentation are complete and comprehensive. Grantee management has conducted discussions to review LSC guidelines regarding contracts and will expand training to all staff members involved in contracting. The grantee is in the process of implementing a centralized electronic contract file management system. Grantee management will revise its Accounting and Financial Policies and Procedures Manual to describe clearly the type and dollar value of purchases that require a contract or other formal written agreement and will conduct a training regarding the necessary elements to be contained in all contracts.

Grantee management will remind and instruct all individuals involved in purchasing and payment processes to verify that vendor invoices provide sufficient detail of the goods and services rendered.

The grantee stated that they have taken steps to enhance and improve its purchase order system. They have recently developed a Purchase Requisition document for initiating requests for expendable items. Upon approval of Purchase Requisitions, a Purchase Order will be initiated, if appropriate. Grantee management will incorporate these new procedures in its Accounting and Financial Policies and Procedures Manual.

The grantee will enhance its written policies for credit cards including a spending limit on American Express cards, acknowledgement of receipt of credit cards, and issuance of credit cards. A limit has already been implemented for the American Express credit

cards. A document acknowledging receipt of a credit card will be developed and maintained by the Controller. For Recommendation 12, grantee management offered an alternative recommendation stating that current policies and procedures require that credit card transactions have requisite approval prior to making payment, however, they may elect to make payment prior to receipt of all supporting documentation of charges in order to avoid incurring late fees, interest charges and/or temporary denial of use.

Grantee management will update its Accounting and Financial Policies and Procedures Manual to reflect changes in duties and responsibilities for cash receipts which were in place at the time of the audit but for which written policies had not been updated.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers the proposed actions to address Recommendations 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 in the report as responsive. Although the grantee partially agreed with Recommendation 12, the OIG accepts the reasoning provided by grantee management for partial acceptance. All 12 Recommendations will remain open until the OIG receives written notification that the grantee has updated and implemented its policies and procedures.

The grantee's comments are not completely responsive to Recommendation 1. The grantee's suggested update of their policy is responsive. However, the proposed action does not demonstrate that attorneys' fees will be allocated based on time spent by the attorney on the case according to 45 CFR Part 1609. We will refer this recommendation to LSC Management for review and resolution.

APPENDIX I

SCOPE AND METHODOLOGY

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

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

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

We assessed the reliability of computer generated data the grantee provided by tracing and testing to source documentation for the entries selected for review. We determined the data were sufficiently reliable for the purposes of this report.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. The sample consisted of 75 disbursements, comprising 132 transactions, totaling \$1,094,271. The sample represented approximately 21 percent of the \$5,269,724.77 disbursed for expenses other than payroll during the period January 1, 2014 to September 30, 2014. To assess the appropriateness of expenditures, we reviewed invoices, vendor lists and traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations and LSC policy guidance.

In addition, to test internal controls over credit cards, we reviewed 10 credit card statements comprising 86 transactions, totaling \$25,665. The sample of credit cards transactions was disbursed during the audit period of January 1, 2014 to September 30, 2014. We assessed the appropriateness of expenditures and the existence of approvals and adequate supporting documentation.

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

To evaluate the adequacy of the cost allocation process, we discussed the cost allocation process for 2014 with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We performed detailed cost allocation testing of 5 transactions to determine if allocated amounts conformed with the documented LAB allocation process and the transactions properly allocated in the accounting system. We also selected 3 grants to verify the indirect costs charged to the funding sources complied with the restrictions outlined in the grant agreements.

Controls over derivative income were reviewed by examining current grantee practices in comparison with policies outlined in the LSC Accounting Guide. The composition of derivative income in the general ledger was reviewed and the allocation amounts recalculated.

The on-site fieldwork was conducted from November 7 through November 14, 2014. Our work was conducted at the grantee's central administrative office in Baltimore, MD and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2014 through September 30, 2014.

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



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1.2015



June 19, 2015

John Seeba

Assistant Inspector General for Audit
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558

Dear Mr. Seeba:

Your understanding and cooperation in granting Maryland Legal Aid expanded time to respond to your Draft Report on Selected Internal Controls (the Report) are very much appreciated. The required review of and the response to the Report coincided with our need to address several time sensitive, major, funding-related matters.

Attached for your review are Maryland Legal Aid's comments on the Report. Each of the Report's recommendations will be addressed in terms of the actions which Maryland Legal Aid plans to or has already taken to implement the recommendations.

Recommendation 1: the Executive Director should revise the written policies and procedures for attorneys' fee to meet LSC requirements and comply with the regulation.

Maryland Legal Aid will revise its Accounting & Financial Policies and Procedures Manual to make it clear that, in accord with 45 CFR § 1609.4 (a), legal fees awarded and received in association with legal representation involving an LSC eligible case, supported in whole or in part with funds provided by LSC, shall be allocated as derivative income to the LSC grant fund in the same proportion that the amount of LSC funds expended bears to the total amount expended in association with the representation. Although Maryland Legal Aid's accounting

The Legal Aid Bureau, Inc. is a 501 (c)(3) organization that provides free civil legal services to low-income people in every Maryland community. A copy of our current financial statement is available upon request by calling our office (410) 951-7719. Documents and information submitted to the State of Maryland under the Maryland Charitable Solicitations Act are available from the Office of the Secretary of State, State House, Annapolis, MD 21401, for the cost of copying and mailing.

All funds received by the Legal Aid Bureau, Inc. are spent in accordance with the Legal Services Corporation Act of 1974, as amended 1977, 42 U.S.C. §§ 2990 et. seq., its implementing regulations, 45 C.F.R. § 1609 et. seq., and other applicable law.

system does not accumulate or calculate individual case costs, this derivative income allocation calculation will be accomplished by reference to the General Ledger costs allocated to LSC at the responsible office or unit handling the case for which fees were awarded for a period of at least 12 months preceding the fee award event and then comparing those costs to the total General Ledger costs of that office or unit during the same period of time.

Although Maryland Legal Aid believes that the derivative income allocation calculation methodology previously in use resulted in materially identical results, this change will be made to clarify the procedure terminology at the OIG's request.

Recommendation 2: ensure the fixed assets policies and procedures in the Accounting & Financial Policies and Procedures Manual fully capture applicable requirements detailed in the LSC Accounting Guide.

Maryland Legal Aid will revise its Accounting & Financial Policies and Procedures Manual to incorporate into the manual's language, descriptions of Fixed Asset property records which include all information required by Appendix II of the Legal Services Corporation Accounting Guide for LSC Recipients (2010 Edition) (Accounting Guide). Following is an excerpt from the proposed manual language:

Establishment and Maintenance of Fixed Asset Property Records

Legal Aid maintains fixed asset property records with the objective of fully complying with the LSC Accounting Guide. In accord with that guide, Legal Aid records and retains the following information for all Fixed Assets:

1. A description of the property, including model and manufacturer's serial number or other identification number;
2. Date of acquisition;
3. Check number used to pay for item;
4. Cost of the property and salvage value;
5. Useful life;
6. Depreciation method (i.e., recipient must either adopt a written policy on depreciation methods governing identifiable classes of property or show the actual depreciation method on each individual property record);
7. Source of funds used to acquire the property;
8. Description of how value was assigned if property was donated;

John Seeba
Assistant Inspector General for Audit
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9. Location and condition of the property and the date the information was reported;
10. Inventory control number/tag;
11. The ultimate disposition data, including date and method of disposal and sale price if sold with the method used to determine the current fair value.

The total dollar value of individual items capitalized shall equal the property control account balance in the general ledger and support related amounts disclosed in the financial statements.

Recommendation 3: ensure that updated information is maintained in the Access database and the online tracking record.

Maryland Legal Aid is in the process of instituting several improvements to its policies and procedures related to the tagging, record keeping and tracking of IT and communication equipment that is not capitalized. Those procedures will include timely maintenance and periodic reconciliations of the Information Technology Unit maintained Access database and online tracking systems.

Recommendation 4: ensure that contracting practices adhere to LAB's written contracting policies and procedures as well as LSC requirements including: 1) documentation maintained is complete with the process used for each contract action; 2) there is adequate support for competition or sole sourcing of the contract; and 3) documentation is maintained in a central file.

Maryland Legal Aid is in the process of reviewing and updating its contract files with the goal of assuring that contracts and supporting documentation are complete and comprehensive – including all pertinent documents related to the solicitation, receipt and evaluation of bids, reasons and approvals for sole sourcing purchases, if applicable, and the award of the contract. Contract files, specific to each contract, grouped by vendor, involving IT equipment, software and communication equipment are maintained in the office of the Director of Technology. All other Contract files grouped by vendor, are to be maintained in the office the Director of Administrative Services or other Unit Chief responsible for initiating the purchase of those contracted goods or services. It is Maryland Legal Aid's plan to have scanned copies

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of all contracts available on the organization's Intranet SharePoint system for easy reference and use by members of the Budget and Finance Unit and senior management. The Director of Finance and Controller in the Budget and Finance Unit, the Director of Technology, the Executive Director and the Chief Operating Officer shall have general access, password protected, to all areas and all contracts in this system, while other managers will have access, password protected, to upload and review contracts only specific to their areas of responsibility.

Recommendation 5: familiarize staff with the LSC Accounting Guide contract criteria to ensure that all requirements are adhered to, including documentation of the contracting process, rational and decisions made.

Maryland Legal Aid has conducted discussions among select members of Executive Management, the Budget and Finance Unit, the Administrative Services Unit and the Information Technology Unit to review both the LSC Accounting Guide contract criteria, as well as the contracting sections of Maryland Legal Aid's Accounting & Financial Policies and Procedures Manual. Training in these areas will be expanded to include all Unit Chiefs responsible for directing goods and services purchases by contract. Also included shall be instructions for uploading and accessing contracts to be maintained on the Intranet SharePoint system as soon as that new capability is implemented.

Recommendation 6: create a centralized filing system for all contracts, where a file is established for a specific contract containing all pertinent documents related to the solicitation, receipt and evaluation of bids, and the award of the contract.

Maryland Legal Aid is in the process of implementing a centralized electronic system where copies of all contracts will reside. Contract files, specific to each contract, containing original contracts and supporting documentation including all pertinent documents related to the solicitation, receipt and evaluation of bids, reasons and approvals for sole sourcing purchases, if applicable, and the award of the contract, shall be maintained by the individual responsible manager.

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Recommendation 7: *ensure all products and services obtained or performed within specific, agreed-upon terms are supported by a valid formal agreement.*

Maryland Legal Aid will revise its Financial & Accounting Policies and Procedures Manual, in accord with the LSC Accounting Guide, as necessary, to describe clearly the type and dollar value of purchases that require a contract or other formal written detailed agreement. In all such transactions, Maryland Legal Aid's policy is to ensure that products and services are obtained within properly approved agreed-upon terms.

Recommendation 8: *ensure all invoices paid to contractors are supported by a valid contract within the specified timeframes and rates.*

Included in the planned training discussed above (See Recommendation 5), will be a presentation on the necessary elements to be contained in all contracts and the procedures necessary for the evaluation and acceptance of products and services by responsible individuals prior to approvals for payment. As noted in response to Recommendation 7 above, Maryland Legal Aid will, revise its Financial & Accounting Policies and Procedures Manual as necessary, in accord with the LSC Accounting Guide, to clearly describe the type and dollar value of purchases that require a contract or other detailed formal written agreement.

Recommendation 9: *invoices received from vendors provide sufficient details of the goods and/or services rendered for each line item listed on the invoice(s).*

Maryland Legal Aid employs stringent internal controls over, and rigorous reviews of, all disbursements to vendors. Every disbursement to a vendor is subject to multiple and redundant executive and manager scrutiny, review and approval at several levels in the organization. Invoices are reviewed, approved and coded by managers and staff in the finance unit. Only non-financial senior executives have signature authority on the organization's bank accounts and every check is physically signed by hand. Two senior executive physical signatures are required if a check is equal to or greater than \$10,000. Complete invoice support and other appropriate documentation are attached to every check presented for signature.

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Maryland Legal Aid will remind and instruct all individuals involved in its purchasing and payment processes to assure that vendor invoicing provides sufficient detail of the goods and/or services rendered for each line item listed on the invoice(s).

Recommendation 10: all orders are initiated by a purchase order and that the purchase order is attached to the packing slip as well as the invoice/statement prior to payment.

Maryland Legal Aid has taken steps, and will continue to take steps, to enhance and improve its purchase order system where appropriate. Purchase orders initiated in the AccuFund accounting system are utilized by the Administrative Services Unit for the purchase of expendable supplies, furniture and office equipment. The Information Technology Unit utilizes and maintains a separate purchase order system for the purchase of IT, and communications equipment and services and software. Procedures currently require that the purchase order document be attached to the packing slip as well as the original vendor invoice prior to payment. A recent addition to the current system is the development of a Purchase Requisition document now available to office managers to initiate requests for expendable supplies, furniture and office equipment. Office chiefs need to document their approval of the requests on the Purchase Requisition form and forward the completed form to the Purchasing Coordinator (PC) in the Administrative Services Unit. The PC, if appropriate, will then initiate a Purchase Order and submit for required approvals. These new procedures will be incorporated into Maryland Legal Aid's Financial & Accounting Policies and Procedures Manual.

Recommendation 11: enhance its written policies for credit cards to include policies for issuance, procedures for acknowledging receipt, and documented spending limits for all credit cards.

Maryland Legal Aid will enhance written policies for credit cards to include a spending limit on American Express cards, which has already been implemented, and the development of a receipt of credit card acknowledgement document to be maintained by the Controller in the Budget and Finance Unit. The individuals to whom cards are issued are clearly specified in Maryland Legal Aid's Accounting and Financial Policies

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and Procedures Manual. The language in the manual will be updated to make it clear that the determination of who shall have cards issued to them is determined by the Executive Director or his/her designee.

Recommendation 12: ensure credit card transactions have the requisite approval at the appropriate level of management and that approvals are performed prior to making payments.

Policies and procedures currently require that credit card transactions have requisite approval at the appropriate level of management and that approvals are received prior to making payments. However, failure to make timely payment of credit card statements results in high late fees, interest charges and, in the case of American Express, temporary denial of card use. Rather than make partial payments on credit cards, which incurs account interest charges, Maryland Legal Aid, in accord with sound business practices, will occasionally elect to pay a credit card billing in full before all supporting receipts have been received, if requests have been made for those receipts and if the charges temporarily missing receipt support appear to be ordinary and necessary business expenses. In those situations, continued follow-up with the individual(s) responsible for providing the receipt(s) is mandatory until the required receipt or alternative supporting documentation is obtained.

Recommendation 13: enforce the use of cash receipts logs as set forth in the LAB Accounting and Financial Policies and Procedures Manual.

Maryland Legal Aid does maintain a daily cash receipts log. In the recent past, this log was maintained by the Administrative Assistant to the Director of Program Development and Compliance, whose office was formerly located in the Budget and Finance Unit area. Following personnel and duty changes in 2014, responsibility for maintenance of the daily cash receipts log was transferred to the Accountant-Accounts Payable. At the same time, responsibility for making bank deposits was transferred to the Accountant – Payroll Administrator to maintain segregation of duties. Currently, due to the temporary absence of the Accountant – Accounts Payable, the Senior Accountant is maintaining the daily cash receipts log. At the time of the OIG audit team visit in November 2014, the Accounting and Financial Policies

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and Procedures Manual had not been updated to reflect those changes in job responsibilities. Further, the Executive Assistant to whom the OIG audit team spoke was not the Administrative Assistant tasked in the accounting procedures manual with maintaining the daily cash receipts log. There apparently was a miscommunication and misunderstanding as to who is responsible for the cash receipts log and how it is currently handled.

Maryland Legal Aid will update its Accounting and Financial Policies and Procedures Manual to reflect these duty and responsibility changes in the Cash Receipts procedures section.

Again, thanks for the time and attention you have invested in these important matters.

Respectfully,



Wilhelm H. Joseph
Executive Director