



Office of Inspector General
Legal Services Corporation

Inspector General

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January 11, 2021

Mr. Sam Abel- Palmer
Executive Director
Legal Services Vermont
264 N. Winooski Avenue
Burlington, VT 05401

Dear Mr. Abel-Palmer:

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit on Selected Internal Controls at Legal Services Vermont (LSV). Appendix III of the final report includes LSV's comments to the draft report in their entirety.

The OIG considers proposed actions to Recommendations 3, 6, 10 and 13 as fully responsive and has closed the four recommendations.

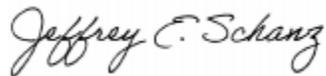
The OIG also considers the proposed actions to Recommendations 2, 4, 5, 7, 8, 9, 11, 12 and 14 as responsive. However, these nine Recommendations will remain open until the OIG is notified that the proposed actions have been completed and supporting documentation is received. Specifically, Recommendations 4, 5, 7, 9 and 12 will remain open until the OIG is provided with documentation of the updated policies and procedures adopted by the Board of Trustees over the budgeting process, per diem rates, credit card and line of credit user agreements, and accounting system users access.

The grantee agreed with Recommendation 1 and the OIG considers the grantee's comments to Recommendation 1 as responsive; however, the OIG is referring this recommendation and the finding related to program integrity to LSC Management for resolution. We found that LSV and Vermont Legal Aid appear to be legally separate entities and maintain separate accounting and timekeeping systems; however, based on

1610.8, the OIG could not come to a level of comfort that adequate separation of personnel existed.

Please send us your response to close out the nine open recommendations, along with supporting documentation within six months of the date of the final report. We thank you and your staff for your cooperation and look forward to receiving your submission by July 12, 2021.

Sincerely,



Jeffrey E. Schanz

Enclosure

cc: Legal Services Corporation
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**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL
CONTROLS**

LEGAL SERVICES VERMONT

RNO 146010

Report No. AU 21-01

January 2021

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 Services Vermont related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Burlington, VT and LSC headquarters in Washington, DC.

In accordance with the 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

Legal Services Vermont (LSV or "grantee") is a nonprofit legal services law firm established in 1996 and based in Burlington, VT. LSV was formerly known as Legal Services Law Line of Vermont until a name change in January 2019. LSV provides free consultation, advice and community education for low-income Vermonters with civil legal matters. LSV serves 14 counties in Vermont.

LSV is funded primarily through contracts with LSC, federal agencies and foundations, and agreements with Vermont Legal Aid, Inc (VLA), which is a related party¹. According to audited financial statements for the fiscal year-ended December 31, 2018, LSV's revenue and support totaled \$1,131,568. LSC provided funding in the amount of \$699,246 or 62 percent of the grantee's total funding.

¹ Vermont Legal Aid, Inc (VLA) is a separate, non-profit organization established in 1968 to provide civil legal services. VLA works closely with LSV, which manages the legal helpline and requests for legal help for both organizations. LSV has a contractual arrangement with VLA to provide contractual services such as office space, administrative and support services. The organization also shares a separate but overlapping Board of Directors. The Program Integrity, Contracting and Appendix I-Scope and Methodology sections of this report provide additional details of work performed surrounding this related party.

OBJECTIVE

The overall objective was to assess the adequacy of selected internal controls at LSV and determine whether costs are supported and allowed under the LSC Act of 1974, as amended, the Accounting Guide for LSC Recipients, as well as other applicable laws and regulations.

AUDIT FINDINGS

To accomplish the audit objective, the OIG evaluated select internal controls in specific financial and operational areas to ensure that costs were adequately supported and allowed under the LSC Act, LSC regulations and guidelines. In particular, the OIG reviewed and tested internal controls related to contracting (including controls over the arrangement with VLA), management reporting and budgeting, disbursements, credit cards, general ledger and financial controls, fixed assets, payroll, derivative income, cost allocation, and employee benefits within the audit period of January 1, 2018 through September 30, 2019. Along with our review of contracting, we performed an assessment of the grantee's adherence with program integrity as it relates to the contract the grantee has with VLA.

Internal controls were adequately designed and properly implemented in derivative income, cost allocation, and employee benefits. However, LSV needs to strengthen practices and/or formalize in writing internal controls in the remaining areas as detailed below.

PROGRAM INTEGRITY

We found that VLA appears to be a legally separate entity and maintains separate accounting and timekeeping systems; however, we could not come to a level of comfort that adequate separation of personnel existed.

According to LSC Regulation 45 CFR 1610.8, "a recipient must have objective integrity and independence from any organization that engages in restricted activities. A recipient will be found to have objective integrity and independence from such an organization if... [T]he recipient is physically and financially separate from the other organization. Mere bookkeeping separation of LSC funds from other funds is not sufficient. Whether sufficient physical and financial separation exist are determined on a case-by-case basis." The existence of separate personnel is a relevant factor in determining whether the recipient is physically and financially separate from the other organization.

The contract stipulates that VLA will provide LSV with information technology, bookkeeping, financial management and human resource services. However, it appears that the Chief Financial Officer (CFO), Accounting Assistant/Bookkeeper, Human Resources (HR) Coordinator and Information Technology (IT) Administrator are shared by both organizations, raising the concern that these individuals are acting as employees rather than as representatives of VLA providing independent contractor services to LSV. It is also concerning whether the above staff can effectively divide time and establish controls between both organizations when the roles appear to be critical in both organizations' operations.

The OIG will refer this matter to LSC Management for further review and action.

We recommend the Executive Director:

Recommendation 1: consult with LSC Management to ensure the grantee's engagement with VLA meets the existence of separate personnel criteria stipulated in LSC Regulation 45 CFR 1610.8.

CONTRACTING

The OIG found that the grantee's policies and procedures over contracting adhere to the *Fundamental Criteria of An Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. The grantee's financial information was reviewed to determine vendors with whom the grantee had contracts. The grantee mainly contracts with Vermont Legal Aid (VLA), a related party, for a variety of services such as office space, administrative and support services.

Testing was performed to determine whether the grantee has adequate internal controls over the contracting process as well as the agreement with VLA ("VLA agreement"). The OIG tested all six contracts provided by the grantee totaling \$367,333 expended during the audit scope. One contract was competitively bid, three were sole sourced and one obtained quotes from vendors as required by the grantee's Accounting Manual. The remaining contract was entered into before the audit scope. LSV paid \$319,689 to VLA for contracted services which represented 87 percent of funds expended for contracts during the period. The grantee mostly complied with its contracting policies and procedures and seemed to establish internal controls with the VLA agreement; however, the VLA invoice was inadequate and a different contract lacked sole source justifications.

Invoice Lacking Supporting Documentation

VLA is contracted to provide LSV with office space, utilities and maintenance, furniture, bookkeeping, human resource services, information technology, equipment, and maintenance and support. However, LSV did not have adequate documentation to support the amounts invoiced by VLA. LSV is invoiced quarterly, based on an allocation methodology for its proportionate share of the services. One invoice totaling \$43,177, did not provide additional information to reflect how VLA arrived at the amount billed.

To confirm whether the amounts were billed according to the outlined allocation methodology, the OIG selected and reviewed an invoice totaling \$43,177. We found that the invoice was itemized as stipulated in the contract terms. However, the invoice did not have adequate information to support the itemized charges, such as a breakdown of how VLA arrived at the totals. Subsequently, the OIG requested additional documentation to verify whether the amounts were billed according to the allocation methodology outlined in the contract. The grantee did not have this information but requested it from VLA and provided it to the OIG. We confirmed that the allocation methodology was as stipulated in the contract.

The *Fundamental Criteria* Section 3-5.4 (a) *Invoice and Receipt Verification* states the accuracy of invoices should be verified and documented. Verification procedures to validate, among other things, vendor numbers, quantities, and amounts should be reviewed.

Although the grantee stated that the itemized charges could be verified when necessary, the grantee did not require this information and was not aware that such information should be documented along with the invoice.

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

Lack of Sole Source Justification

We found that one of the three sole sourced contracts, with payments totaling \$5,000, did not have a sole source justification or a written memo as required by the grantee's written policies and procedures.

The *Fundamental Criteria*, Section 3-5.16, stipulates "the process used for each contract action should be fully documented and the documentation maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file." The grantee's Accounting Manual also stipulates that in situations where competitive bidding is not feasible, decisions should be documented in a written memorandum and filed with the contract.

The Executive Director stated that a member of the Board recommended this vendor. It was a verbal process and the grantee acknowledged there was no written memo due to management oversight.

Proper documentation helps ensure the approved contract has followed all established procedures.

We recommend the Executive Director:

Recommendation 2: ensure that additional documentation is maintained to support the itemized line items on the quarterly invoices from VLA. The grantee should be able to verify that the amounts charged on the invoice align with the agreed upon allocation methodology.

Recommendation 3: ensure that sole source decisions are fully documented, and the documentation is maintained with the contract files.

MANAGEMENT REPORTING AND BUDGETING

LSV's written policies regarding management reporting and budgeting mostly complied with the *Fundamental Criteria*; however, the OIG found that budgeting policies and procedures were not documented in the grantee's Accounting Manual, monthly management reports were not always prepared or prepared timely, and approvals were not documented.

Lack of Written Budgeting Policies and Procedures

The grantee did not have any documented policies and procedures over budgeting. During the interviews, we noted that LSV had an adequate budgeting procedure in practice. However, the practice is not documented in the grantee's Accounting Manual.

The Accounting Guide Section 3-4: *Internal Control* Structure (5) states, "each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*."

LSV management agreed that the budgeting procedures should be included in the grantee's Accounting Manual and stated that the exclusion was most likely due to management oversight.

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

Deviation from Written Policies

The LSC OIG compared the grantee's written policies and procedures for management reporting to what is done in practice and found discrepancies in the procedures over preparing and approving management reports. The grantee deviated from its own written management reporting policies and procedures by preparing quarterly management reports instead of monthly management reports. Instead of selecting monthly reports, the OIG judgmentally selected four quarterly management reports to ensure there were adequate internal controls over reporting procedures.

Of the four quarters reviewed the following discrepancies were noted:

- 16 reports were required to be prepared (four different reports for each quarter); however, only nine of these reports were prepared. Of the nine reports prepared
 - seven were not prepared timely,
 - six did not have a signature after preparation, and
 - none notated a signature of the Executive Director's approval.

The LSV Accounting Manual stipulates the following:

- Reports to the Executive Director will include Budget v. Actual, Profit and Loss by Class, Total Funding Source Budget v. Actual, and Statement of Cash on Hand.
- These reports will be due on the 10th day following the end of the month, or as soon thereafter as reasonably possible.
- The Bookkeeper will sign and date his or her compilation of the reports.
- The Executive Director will receive a copy of all other reports furnished to any other person/organization. After review, the Executive Director shall sign and date his or her approval.

The *Fundamental Criteria* Section 3-5.9(a): *Use of Reports*, stipulates that the director should receive a monthly management report within a prescribed number of days after month-end and that the director should use the monthly management reports to ensure that all program resources are used efficiently and effectively.

LSV management stated that the lack of reports was a result of being short staffed as well as the transition from the previous Chief Financial Officer (CFO) and other personnel. LSV management stated they will need to revisit the Accounting Manual to see if adjustments are needed with the policy over the timeframe as to when reports are to be prepared and the review and approval procedures of prepared reports.

Not following written procedures could lead to management not having the financial information required to plan for future needs of the organization. In addition, untimely management reports may result in the director making inadequate assessment of program resources.

We recommend the Executive Director:

Recommendation 4: ensure written policies and procedures for budgeting are included in the grantee's Accounting Manual and adequately describe the processes and controls in sufficient detail in accordance with LSC's Accounting Guide, regulations and guidelines.

Recommendation 5: enforce the policies and procedures as they relate to the preparation of monthly management reports and obtaining signature and dates by the Bookkeeper and Executive Director, as documented in LSV's Accounting Manual.

Recommendation 6: ensure all reports required by LSC and the grantee's Accounting Manual are consistently prepared timely after month/quarter end, including the Total Program Budget vs. Actual and Statement of Cash on Hand.

DISBURSEMENTS

The OIG reviewed, evaluated, and tested the adequacy of the grantee's internal controls in place over disbursements. The grantee's internal controls and written policies over disbursements generally comply with the *Fundamental Criteria*. However, the grantee did not disburse per diem allowances in accordance with LSV's Accounting Manual. The OIG

selected a judgmental and random sample of 48 disbursements totaling \$79,293, which represents 10 percent of the \$830,506 disbursed for expenses other than credit cards transactions and payroll.

Inaccurate Per Diem Allowances

The OIG identified three disbursements, totaling \$1,861, including per diem allowances that did not align with the grantee's Travel Reimbursement Policy. The grantee overpaid per diem allowances for an employee by \$304, of which \$14 was allocated to LSC. The OIG found this amount to be immaterial. We are reporting the finding to bring it to the attention of grantee management.

- For one disbursement (sample 1 in table below) with a per diem overpayment of \$86, the employee:
 - a. requested two per diem amounts for one travel day and,
 - b. did not exclude the per diem allowances for conference provided meals from the expense reimbursement request.

- For the remaining two disbursements (sample 2 and 3 in table below) with an overpayment of \$122 and \$96 respectively, the employee:
 - c. attended several local day trainings (during normal LSV office hours) and incorrectly requested the overnight per diem allowance; and
 - d. did not exclude the per diem allowances for conference provided meals from the expense reimbursement request.

Table 1 summarizes the issues identified during testwork.

Table 1: Summary of Disbursement Findings

Sample	Check Amount	Purpose	Total Amount Over Per Diem Allowance	LSC Allocation Percentage	Amount Allocated to LSC
1	\$380	Overnight Conference	\$86	3.32%	\$3
2	\$963	Day Travel and Overnight Conference	\$110 and \$12	8.74%	\$10 and \$1
3	\$518	Day Travel and Conference	\$66 and \$30	0.00%	\$ -
Total	\$1,861	-	\$304	-	\$14

LSV's Accounting Manual states:

“Meals - Day travel is an out-of-town travel period of over 10 hours during the same calendar day that does not require overnight accommodations. Substantiated lunch

expense will be reimbursed up to a maximum of \$8.00. If travel begins more than two hours before normal business hours, substantiated breakfast expense will be reimbursed up to a maximum of \$6.00. If travel extends more than two hours after business hours, substantiated dinner expense will be reimbursed up to a maximum of \$12.00"; and

"Overnight Travel - Per Diem meal allowances will be paid when it is necessary for the traveler to be away from home overnight for the purpose of conducting LSV² business. Per Diem will be paid at the rate of \$30 a day (this includes tips). The per diem meal allowance will be prorated on partial travel days. Travelers may claim Per Diem for each meal period (or portion thereof) in travel status. No per diem meal allowances shall be made for meals provided at conferences or training events."

The incorrect per diem allowances occurred because updates to the 2018 Travel Reimbursement policies and procedures were not clearly communicated to LSV employees.

Per diem reimbursements in excess of the amount authorized per LSV's Accounting Manual may increase potential abuse of the grantee's limited resources and, result in questioned cost proceedings.

The OIG regarded the amount overpaid to the employee as immaterial. This was an instance with one employee due to management oversight.

We recommend the Executive Director:

Recommendation 7: ensure adequate review of claimed per diem amounts before employees are reimbursed.

Recommendation 8: ensure all LSV employees are aware of the updated Travel Reimbursement Policy.

CREDIT CARDS

The OIG reviewed procedures over credit cards and found that the grantee's written policies and procedures regarding credit cards were comparable with the *Fundamental Criteria* and the LSC Accounting Guide. However, LSV did not have user agreements for the credit cards or lines of credit.

² The grantee was formally known as Legal Services Law Line of Vermont (LSLL) until a name change in January 2019.

No User Agreements

LSV does not require its cardholder and account users to sign a user agreement form for the use of the grantee's credit card or lines of credit. LSV has one corporate credit card. The grantee also has two lines of credit with an office supply vendor and a postage vendor for a leased postage machine. Through interviews, we found that employees were aware of expectations for the use of lines of credit and the credit card. All LSV employees have access to incur expenses on the line of credit accounts and can make requests for credit card purchases. Employees are required to turn in receipts to the Accounting Assistant for purchases on the supply vendor line of credit and the Executive Director maintains custody of the credit card. All requests to use the credit card are reviewed and approved by the Executive Director before he makes the purchase. While these controls are in place, the grantee does not have a user agreement for the credit card or purchasing lines of credit.

The LSC Accounting Guide, Section 3-5.1 *Financial Controls* states "Financial controls shall be established to safeguard program resources." Furthermore, it stipulates that the financial authority of supervisory personnel should be clearly defined and evidenced by documentation identifying the authority delegated to supervisory and other personnel to initiate and approve financial transactions. Appendix VII, Section G3, recommends that the grantee consider developing a form that contains credit and debit card policies for employees to review and sign.

The grantee was not aware that user agreements were required for the corporate card or for lines of credit.

Without financial authority being clearly defined and evidenced on user agreement forms, LSV employees may use the grantee's credit lines incorrectly or for unauthorized expenses.

We recommend the Executive Director:

Recommendation 9: establish user agreement forms for employees who utilize the lines of credit and for the Executive Director who maintains the credit card.

Recommendation 10: provide training to LSV employees on authorized uses of LSV's corporate credit card and lines of credit.

GENERAL LEDGER AND FINANCIAL CONTROLS

The OIG reviewed the grantee's policies and procedures over general ledger and financial controls to determine whether adequate controls exist, and policies adhere to LSC regulations and guidelines. The OIG found that the grantee complies with its policies and procedures and those policies adhere to the LSC Accounting Guide. However, the OIG found inadequate practices over the grantee's accounting system user access rights.

User Rights to the Accounting System

The OIG noted that the grantee's accounting system included a terminated employee and a dormant account. The terminated employee was the prior CFO. The dormant account was for an employee already listed in the accounting system as the system administrator.

Chapter 3-6 *Fraud Prevention* of the LSC Accounting Guide recommends permissions and authorizations be assigned deliberately and only as needed. Furthermore, it states that old passwords and users be deleted immediately.

In addition, an LSC OIG Fraud Corner Article³ states a best practice for employee termination procedures is for management to revoke all remote and on-site access immediately after an employee departs. It also advises that management should have termination policies and procedures that instruct how to revoke remote and physical access by recently departed employees.

According to the grantee, the dormant account was created as a tester when conducting training on how to set up users in the system. The grantee agreed that these users should be removed instead of being maintained in the system and a lack of oversight is the reason the accounts were not removed.

Failure to cancel terminated employee accounts and remove dormant accounts may heighten the risk of fraud, obscure the audit trail of the accounting systems and result in undetected and unauthorized transactions.

We recommend the Executive Director:

Recommendation 11: ensure that dormant accounts are deleted and access to the LSV QuickBooks accounting system is revoked for anyone who is not a current authorized employee.

Recommendation 12: implement a policy where user access to the accounting system is immediately removed upon the termination or transfer of an authorized user.

FIXED ASSETS

LSV's written policies and procedures over fixed assets adhered to the *Fundamental Criteria*. However, the OIG found inadequate practices that did not comply with the

³ See for reference: <https://oig.lsc.gov/products/investigative-results-and-guidance/the-fraud-corner/60-products/the-fraud-corner/301-best-practices-for-preventing-and-detecting-insider-threats>

Fundamental Criteria regarding fixed asset records. The grantee's property records included 18 fixed assets which were scheduled to be decommissioned by fiscal year end 2019 and six assets not scheduled to be decommissioned. Due to the nature and minimal fixed assets, the OIG reviewed all 24 of LSV's fixed assets which had a book value of \$8,139 as of September 30, 2019.

Inadequate Property Records

Our review of LSV's fixed asset listing noted the following:

- LSV did not include all the required elements of the *Fundamental Criteria* on the listing. Specifically, the grantee did not include the check number and location in their fixed asset listing as required by the Accounting Guide and LSV's Accounting Manual;
- Two out of six assets not scheduled to be decommissioned, had incorrect serial numbers and another asset's serial number could not be found (however this was corrected at the time of our visit).

The LSC Accounting Guide, *Fundamental Criteria* section for Property Records states property purchases should be recorded in a property subsidiary record. The property record should include description of the property, date acquired, check number, original cost, fair value (if donated), method of valuation (if donated), salvage value/if any, funding source, estimated life, depreciation method, identification number, and location.

LSV did not follow their fixed asset policies and procedures due to management oversight.

Failure to adequately track fixed assets may result in the loss, misrepresentation, or defalcation of grantee property. Failure to maintain adequate property records may result in incomplete or inaccurate property records.

During the time of our visit, the grantee updated the serial numbers for the fixed assets. Since grantee management has already corrected the issue, no recommendation will be made related to this finding.

We recommend the Executive Director:

Recommendation 13: adhere to LSC's criteria & LSV's policies and procedures for maintaining fixed assets listings with the information necessary to properly track and account for fixed assets.

PAYROLL

LSV's written policies and procedures for payroll processes were comparable to the *Fundamental Criteria* in the Accounting Guide. OIG testwork revealed adequate internal

controls over payroll processes. However, after interviewing LSV staff, the OIG found that the grantee did not utilize an imprest bank account for processing payroll.

No Imprest Bank Account

The OIG determined that the grantee did not have a separate payroll account from the operating or checking bank account. LSV processes payroll from the grantee's operating bank account.

The Accounting Guide Section 3.5.5(b): *Imprest Bank Account* stipulates that "payrolls should be disbursed from an imprest bank account restricted for that purpose. Deposits to the payroll account should be controlled by an authorizing procedure which prevents duplicate deposits and over deposits."

LSV management was not aware of the requirement to have an imprest bank account.

Lack of an imprest payroll account can facilitate unauthorized payroll transactions. Failure to control deposits as well as disbursements provides opportunities for defalcation.

We recommend the Executive Director:

Recommendation 14: establish an imprest bank account used for payroll processing that is separate from the operating bank account.

OIG SUMMARY OF GRANTEE MANAGEMENT COMMENTS

LSV provided their responses to the OIG's Draft Report via email on December 14, 2020. LSV's responses are included in their entirety in Appendix III.

LSV management agreed with all findings and the 14 recommendations as indicated below:

- LSV agreed to consult with LSC management to clarify the separation of personnel between LSV and VLA.
- LSV stated that they will request additional documentation from VLA to support amounts charged during the quarterly billing process and include the documentation with the file.
- LSV plans to ensure that procurement memos are attached to the file for external contracts when such memo is required per their accounting policies and procedures.
- LSV updated the Accounting Manual to include a new policy on the budgeting process.
- LSV updated their current policies and procedures to require quarterly reports in place of monthly (as previously required by their Accounting Manual) for a more realistic expectation and will ensure these reports are completed in a timely manner.
- LSV stated that they will ensure timely submission of all reports.
- LSV indicated that they will ensure appropriate review of all per diem expenditures and has revised the Personnel Manual including an update of per diem procedures, which is now tied to the federal rate.
- LSV indicated that they will inform staff of the updated reimbursement policy and conduct a training on the updated Personnel Manual in early 2021.
- LSV stated that they will implement and develop a user agreement for credit cards and lines of credit for all authorized users. Additionally, LSV added language to the Accounting Manual to clarify use of credit cards, lines of credit and authorized users.
- LSV indicated that the Executive Director has reviewed policies for credit card and lines of credit for personal training and will provide training to any future Board approved users.
- LSV stated that they will ensure that dormant accounts are removed, and access is revoked for anyone who is no longer authorized to have access.
- LSV updated the Accounting Manual to incorporate policies and procedures to revoke access to unauthorized users of the accounting system.

- LSV stated that they will conduct more frequent reviews to ensure the grantee is adhering to current policies for maintaining and tracking fixed assets.
- LSV indicated that they will establish a separate imprest bank account for payroll.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers LSV's comments and actions provided as of December 14, 2020, for Recommendations 3, 6, 10 and 13 as fully responsive. The OIG considers these four recommendations to be closed. The grantee's comments and actions and are as follows:

- Recommendation 3, LSV management has agreed to ensure procurement memos are attached on file when such memo is required per their accounting policies and procedures.
- Recommendation 6, LSV management has agreed to ensure timely submission of all monthly and quarterly management reports.
- Recommendation 10, the Executive Director has reviewed policies for credit card and lines of credit for personal training and will provide training to any future Board approved users.
- Recommendation 13, LSV management has agreed to conduct more frequent reviews to ensure the grantee is adhering to current policies for maintaining and tracking fixed assets.

The OIG considers the proposed actions for Recommendations 2, 4, 5, 7, 8, 9, 11, 12 and 14 as responsive. However:

- Recommendation 2 will remain open until LSC OIG is provided with documentation supporting the updated billing procedures during the first quarter of 2021 for the VLA agreement.
- Recommendation 4 will remain open until LSC OIG is provided with supporting documentation of the updated policies and procedures adopted by the Board of Trustees over the budgeting process.
- Recommendation 5 will remain open until LSC OIG is provided with supporting documentation of the updated policies and procedures adopted by the Board of Trustees over the change from monthly reports to quarterly reports.
- Recommendation 7 will remain open until LSC OIG is provided with supporting documentation of the updated policies and procedures adopted by the Board of Trustees over per diem rates.
- Recommendation 8 will remain open until LSC OIG is provided documentation showing LSV staff has been informed of the updated reimbursement policies.

- Recommendation 9 will remain open until LSC OIG is provided with supporting documentation of the updated policies and procedures adopted by the Board of Trustees over credit card and lines of credit user agreements.
- Recommendation 11 will remain open until LSC OIG is provided with documentation that unauthorized users have been removed from the accounting system.
- Recommendation 12 will remain open until LSC OIG is provided with supporting documentation of the updated policies and procedures adopted by the Board of Trustees over user access to the accounting system.
- Recommendation 14 will remain open until LSC OIG is provided documentation showing the establishment of an imprest petty cash account.

The grantee agreed with Recommendation 1 and the OIG considers the grantee's comments to Recommendation 1 as responsive; however, the OIG is referring the finding and recommendation in the subject report related to program integrity to LSC Management for resolution. We found that LSV and Vermont Legal Aid appear to be legally separate entities and maintain separate accounting and timekeeping systems; however, based on 1610.8, the OIG could not come to a level of comfort that adequate separation of personnel existed.

APPENDIX I- SCOPE AND METHODOLOGY

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

- Program Integrity;
- Contracting (including controls related to LSV's agreement with VLA);
- Management Reporting and Budgeting;
- Disbursements;
- Credit Cards;
- General Ledger and Financial Controls;
- Fixed Assets;
- Payroll;
- Derivative Income;
- Cost Allocation; and,
- Employee Benefits.

The OIG 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 during the period of January 1, 2018 through September 30, 2019.

To obtain an understanding of the internal controls framework and LSV's processes over areas listed above, we (1) reviewed grantee's policies and procedures, including manuals, guidelines, memoranda and directives, setting forth current grantee practices and (2) interviewed grantee management and staff.

To review and evaluate internal controls, the OIG designed and performed audit procedures to obtain sufficient and appropriate evidence to support our conclusions over the design, implementation, and operating effectiveness of controls significant to the audit objectives. Furthermore, we conducted direct tests, including inquiry, observation, examination and inspection over source documents to determine whether the grantee's internal control system and policies and procedures complied with the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide.

In accordance with Government Auditing Standards, the OIG assessed the reliability of LSV's computer-generated data. We performed data assessments by conducting interviews, tracing samples to source documents and the general ledger, and by reviewing select accounting system controls. The OIG determined that the computer processed data is reliable and sufficient for the audit objectives and purposes of this report.

We also assessed significance and audit risk. The OIG determined that internal controls in select financial and operational areas mentioned above are significant to the audit objective. Audit risk is defined as the possibility that audit findings, conclusions, recommendations or assurance may be improper or incomplete as a result of factors such as evidence that is not sufficient or appropriate, an inadequate audit process, or

intentional omissions or misleading information because of misrepresentation or fraud. Based on our consideration of these factors, we determined the audit risk level to be low.

A non-statistical sampling methodology was used to select samples for testing. We determined that a non-statistical methodology would be appropriate based on our audit objectives, audit scope, nature of the grantee, and audit timeline. Our results cannot be projected to the universe and are not intended to make inferences about the populations from which our samples were derived.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmental and randomly selected sample of vendor files were reviewed. The sample consisted of 48 disbursement transactions (25 were derived from a simple random sample selection and 23 from a judgmental selection) totaling \$79,293. The sample represented approximately 10 percent of the \$830,506 disbursed for expenses other than payroll and credit card payments during the period January 1, 2018, to September 30, 2019. To assess the appropriateness of expenditures, invoices and vendor lists were reviewed, then the expenditures were traced to the general ledger. The appropriateness of those expenditures was evaluated based on the grant agreements, applicable laws and regulations, and LSC policy guidance.

In addition to disbursements, we judgmentally selected a sample of 25 credit card transactions totaling \$7,593. The appropriateness of the expenditures was assessed, and the OIG checked for the existence of approvals and adequate supporting documentation.

To evaluate controls in contracting, specifically controls relating to the grantee's relationship with VLA, we conducted interviews with LSC's Office of Compliance and Enforcement and Office of Legal Affairs to gain an understanding of the agreement in place and gather background information. Additionally, we conducted interviews with the grantee and performed an assessment of the grantee's adherence with LSC Regulation 45 CFR 1610.8. We also included the contract with VLA as part of our sample in our review over contracts. We examined related policies and procedures as applicable and selected specific transactions to review for adequacy and compliance with LSC regulations and guidelines.

To evaluate the adequacy of the cost allocation process and to determine whether the allocation methodology is reasonable and in compliance with LSC regulations and guidelines, we discussed the process with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We reviewed selected transactions to determine if the amounts allocated were in conformity with the documented allocation process and if the transactions were properly allocated in the allocation spreadsheet and the general ledger.

Controls over purchases, records, inventory, and disposal of property and equipment were reviewed by examining current grantee practices in comparison with LSC regulations and policies outlined in the LSC Accounting Guide.

To evaluate and test internal controls over the employee benefits, payroll, management reporting and budgeting, general ledger and financial controls, as well as derivative income, we interviewed appropriate program personnel, examined related policies and procedures as applicable and selected specific transactions to review for adequacy and compliance with LSC regulations and guidelines

On-site fieldwork was conducted from December 2, 2019 through December 6, 2019 at the grantee's administrative office in Burlington, VT. We continued our work at LSC headquarters in Washington, DC. Documents reviewed were for the audit scope January 1, 2018 through September 30, 2019.

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. We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the internal control components and underlying principles that we determined to be significant to the audit objectives as shown in Appendix II – Assessment of Internal Control Components and Principles. However, because our review was limited to certain internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Additionally, the OIG assessed whether it is necessary to evaluate information systems controls. The OIG determined that information system controls are significant to the audit objective and evaluated information system controls related to specific grantee operations, oversight, program expenditures, and fiscal accountability. Our internal control review includes performing audit procedures related to information system controls to obtain sufficient, appropriate evidence to support and document our findings and conclusions on implementation and effectiveness of internal control at the grantee. We determined that no further audit procedures relating to information systems controls were needed.

APPENDIX II- ASSESSMENT OF INTERNAL CONTROL COMPONENTS AND PRINCIPLES

Our performance audit is an internal control review of specific financial and operational areas at the grantee. Therefore, internal control is significant to the audit objective. We determined the following internal control components significant to the audit objectives:

Internal Control Component		Principal		Significant/ Material to Audit Objectives?
Name	Overview	Number ⁴	Description	
Control Environment	The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.	1	Demonstrate Commitment to Integrity and Ethical Values	Yes
		2	The Oversight Body Should Oversee the Entity's Internal Control System	Yes
		3	Management Should Establish an Organizational Structure, Assign Responsibility, and Delegate Authority to Achieve the Entity's Objectives	Yes
Control Activities	Control activities are the actions management	10	Management Should Design Control Activities to Achieve	Yes

⁴The numbers correspond with the principles outlined in the *Standards for Internal Control in the Federal Government*. The Principles No. 4, 5, 6, 7, 8, 9, 16 and 17 not included in Appendix II were considered during the audit. However, these Principles were determined not significant to the audit objectives.

	establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.		Objectives and Respond to Risks	
		11	Management Should Design the Entity's Information System and Related Control Activities to Achieve Objectives and Respond to Risks	Yes
		12	Management Should Implement Control Activities Through Policies	Yes
Information and Communication	Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events.	13	Management Should Use Quality Information to Achieve the Entity's Objectives	Yes
		14	Management Should Internally Communicate the Necessary Quality Information to Achieve the Entity's Objectives	Yes
		15	Management Should Externally Communicate the Necessary Quality Information to Achieve the Entity's Objectives	Yes

APPENDIX III – GRANTEE MANAGEMENT COMMENTS

LEGAL SERVICES VERMONT

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800-639-8857 802-651-4130(Fax)

www.vtlawhelp.org

December 14, 2020

Roxanne Caruso, Assistant Inspector General for Audits
Office of the Inspector General
Legal Services Corporation
3333 K Street, NW 3rd Floor
Washington, DC 20007-3522

RE: Response to Draft Report on Selected Internal Controls for Legal Services Vermont

Dear Ms. Caruso:

Thank you for the Draft Report on Selected Internal Controls for Legal Services Vermont, based on the audit team's visit of December 2019. I have attached to this letter our completed Recommendations Response Form.

Overall, we are in agreement with the observations in the Draft Report and with the recommendations for the ways we can work to continue to strengthen our accounting procedures and internal controls. In the cases where the report recommends amending the language of our Accounting Manual to strengthen procedures, those changes have been made and approved by the LSV Board of Trustees at its meeting of December 9, 2020. Where the report recommends greater adherence to current policies and procedures, we have alerted affected staff of the need to adhere to these policies and flagged these issues for further training. In one case, where our Accounting Manual had required certain monthly reports, we have changed the timing of those reports to a quarterly basis, to ensure a more realistic expectation of staff capacity without sacrificing oversight and appropriate fiscal controls.

Again, thank you for providing us with this thorough and thoughtful report, and for the opportunity to provide our response. Please let me know if you need anything else on our end.

Sincerely,

/s/ Sam Abel-Palmer

Sam Abel-Palmer
Executive Director



Office of Inspector General
Legal Services Corporation

Recommendations Tracking Form

Grantee Name:

RNO:

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

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

Recommendations	Response	Comments
Recommendation 1	Agree	Legal Services Vermont agrees that it is appropriate to consult with LSC management, specifically the Office of Compliance and Enforcement, to clarify the separation of personnel between LSV and VLA. LSV believes that our current system does provide adequate separation between the agencies, and we recently reviewed this question in our Board meeting of December 9, 2020 during the Board's annual review of objective integrity. But we will be happy to have further discussions with OCE to ensure that all staff roles between the agencies are appropriately clarified.
Recommendation 2	Agree	LSV will request more detailed documentation from VLA to support the calculation of amounts charged during the quarterly billing process, and include those supporting documents along with the quarterly billing file. We will implement this procedure beginning with the billing for the first quarter of 2021.
Recommendation 3	Agree	LSV will ensure that an appropriate procurement memo is attached to the file for all external contracts, when such memo is required under our accounting procedures. Since our new procurement policy went into place in January 2018, at the very start of the audit period, we were in the process of adjusting our procedures to the new requirements, but going forward we will ensure that this procedure is followed consistently.
Recommendation 4	Agree	LSV has added a new section to the Accounting Manual describing the budgeting process. This change was approved by the LSV Board at its meeting of December 9, effective January 1, 2021.
Recommendation 5	Agree	After reviewing the current Accounting Manual, LSV determined that adequate controls can be maintained by shifting the monthly reports to a quarterly basis, which is a more realistic expectation of contract staff. This change was made to the Accounting Manual and approved by the Board at its meeting of December 9, 2020, effective January 1, 2021. LSV will work with contract staff to ensure that these reports are completed in a timely manner.

Recommendations	Response	Comments
Recommendation 6	Agree	LSV will work with contract staff to ensure to the timely submission of all reports outlined in the Accounting Manual, based on the revisions discussed in the response to Recommendation 5.
Recommendation 7	Agree	LSV will ensure appropriate review of all per diem expenditures. LSV's Board has recently revised the Personnel Manual, including an update of per diem procedures. This change was approved by the Board at its meeting of December 9, 2020, effective January 1, 2021. The updated per diem rate is now tied to the federal rate, which will allow more consistent review and enforcement.
Recommendation 8	Agree	All LSV staff will be informed of the updated reimbursement policy. LSV will conduct a training for staff on our updated Personnel Manual, including the reimbursement policy, in early 2021, shortly after the new manual goes into effect.
Recommendation 9	Agree	LSV will develop and implement a user agreement for credit cards and lines of credit for all authorized users. We have also added language into our Accounting Manual to clarify use of credit cards and lines of credit and who is an authorized user. This change was approved by the Board at its meeting of December 9, 2020, effective January 1, 2021.
Recommendation 10	Agree	Currently, only the Executive Director is authorized to use the credit card and lines of credit. The ED has reviewed these rules for his own training, and will provide training to any other authorized users who may in the future be approved by the Board.
Recommendation 11	Agree	LSV will ensure that dormant accounts are deleted and access to the accounting systems is revoked for anyone who is no longer authorized to have access. LSV will enforce the new policy in the Accounting Manual described in the response to Recommendation 12.
Recommendation 12	Agree	LSV has updated its Accounting Manual to put in place procedures to revoke account access for anyone who is no longer an authorized user. This change was approved by the Board at its meeting of December 9, 2020, effective January 1, 2021.
Recommendation 13	Agree	LSV will conduct more frequent reviews to ensure adherence to current policies for maintaining and tracking fixed assets, no less often than annually.
Recommendation 14	Agree	LSV will establish a separate imprest bank account for payroll, separate from the operating bank account. This account will be established and new procedures implemented during 2021.

Name and

Sam Abel-Palmer, Executive Director

Title

Signature

/s/ Sam Abel-Palmer 12/14/2020
