



Office of Inspector General
Legal Services Corporation

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July 9, 2013

Ms. Phyllis J. Holmen
Executive Director
Georgia Legal Services Program
104 Marietta Street, N.W.
Atlanta, GA 30303-2743

Dear Ms. Holmen:

Enclosed is the Office of Inspector General's (OIG) final report of our audit on Selected Internal Controls at Georgia Legal Services Program. The OIG considers the proposed action to update your program's accounting manual to address all issues raised in the report as responsive to the recommendations. However, the two recommendations will remain open until the OIG is notified in writing that the accounting manual has been revised and updated, and the new policies and procedures have been implemented.

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 SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**REPORT ON SELECTED INTERNAL
CONTROLS**

**GEORGIA LEGAL SERVICES PROGRAM
RNO 611020**

Report No. AU 13-06

July 2013

www.oig.lsc.gov

INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Georgia Legal Services Program (GLSP or grantee), Atlanta, Georgia, related to specific grantee operations and oversight. Audit work was conducted at the grantee's main office in Atlanta, Georgia, and at LSC headquarters in Washington, DC. An on-site visit was conducted from February 4, 2013 through February 14, 2013.

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

According to its website, GLSP was incorporated by the Younger Lawyers Section of the State Bar to accept U.S. Office of Economic Opportunity (OEO) funding for the express purpose of coordinating a Georgia statewide legal services program and providing expanded legal services in Macon, Columbus and Savannah. The website also indicates that GLSP serves clients through 11 regional offices in major population centers around the state, and a Central Office in Atlanta provides administrative, management, financial, fundraising, and specialized legal support.

GLSP is principally funded by LSC and the grantee also receives smaller grants from a variety of federal, state and local agencies. Other funding comes from individual donations and grants from various foundations and corporations. According to the grant award letter, the grantee received over \$6.2 million for the Basic Field grant and \$371,131 for the Migrant grant for the year 2012. In addition, the grantee received

approximately \$5.6 million in non-LSC funding according to LSC's Grantee Profile database.

OBJECTIVE

The overall objective was to assess the adequacy of selected internal controls in place at GLSP as the controls related to specific grantee operations and oversight, including program expenditures and fiscal accountability. Specifically, the audit evaluated selected 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.

SCOPE AND METHODOLOGY

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

- Cash disbursements
- Contracting
- Cost Allocation
- Credit cards
- Salary Advances and Loan Repayment Assistance Program (LRAP)
- Property and Equipment
- Internal Management Reporting and Budgeting
- Client Trust Fund
- Derivative Income

To obtain an understanding of the internal controls over these areas, policies and procedures were reviewed, including manuals, guidelines, memoranda, and directives setting forth current practices. Grantee officials were interviewed to obtain an understanding of the internal control framework and management and staff were interviewed as to their knowledge and understanding of the processes in place. To review and evaluate internal controls, the grantee's internal control system and processes were compared to the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the Accounting Guide. We assessed the reliability of computer generated data, provided by the grantee, by reviewing source documentation for the entries selected for review. We determined that the data were sufficiently reliable for the purposes of this report.

To test controls and the appropriateness of expenditures, we reviewed a judgmentally selected sample of disbursements that included employee and vendor files, and credit card purchases. The sample was taken from the period January 1, 2012 through December 31, 2012, and represented 12.3 percent of the \$3,021,997 disbursed for expenses other than payroll, and consisted of 173 transactions totaling \$372,479. To assess the appropriateness of expenditures, we reviewed supporting documentation

such as invoices and vendor lists, and traced the transactions to general ledger details. Amounts allocated to LSC funds were traced to LSC general ledger accounts. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

Controls over salary advances were reviewed by examining the Collective Bargaining Agreement and other personnel policies and practices, and by testing a judgmentally selected sample of seven employees representing 29 percent of employees who requested and received salary advances during the period January 1, 2012 through December 31, 2012. To assess the salary advance process, we reviewed salary advance requests for appropriate approvals and verified that amounts requested did not exceed the net amount of two weeks' pay as stipulated in the grantee's accounting manual policies. We also reviewed accounting records showing the pay advance amount and individual pay statements showing the amounts deducted towards repayment of the salary advance.

To review controls over the LRAP, we examined the LRAP policy in the grantee's Accounting Manual and tested a sample of six employees representing 26 percent of the employees in the program. We traced the employees to the grantee's staff listing to ensure that all were attorneys. We also reviewed supporting documentation for the payments to ensure compliance with the grantee's LRAP policy.

To review controls over contracts, we requested from GLSP all contracts and/or agreements involving disbursements that were entered into during 2012 and 2013. We also relied on the LSC OIG disbursement sample and GLSP's Check Register with Dates Listing to identify the universe of contracts. A total of nine contractors were identified. We reviewed documentation maintained in contract files and interviewed GLSP's management to assess compliance with the LSC *Fundamental Criteria*.

To evaluate controls over client trust fund accounting and derivative income, we interviewed appropriate program personnel and examined related policies and procedures. The grantee did not receive any derivative income during the period under review.

This review was limited in scope and was not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations.

The on-site visit was conducted from February 4, 2013 through February 14, 2013. Audit work was conducted at the grantee's main office in Atlanta, Georgia, and at LSC headquarters in Washington, DC. Disbursements tested pertained to the period January 1, 2012 through December 31, 2012. Contracts reviewed covered the period of performance¹ from January 1, 2012 through December 31, 2013.

¹ The period of performance represents the entire time period that the contractor is required to perform work for GLSP. Disbursement tests were performed on payments issued prior to our on-site visit.

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.

OVERALL EVALUATION

While many of the controls were adequately designed and properly implemented as they related to specific grantee operations and oversight, some controls need to be strengthened and formalized in writing. Grantee disbursements tested generally were adequately supported and allowable. Internal controls over salary advances and LRAP were generally adequate. Policies over salary advances and the LRAP were in writing and followed. The grantee had documented policies for the use of credit cards and credit card purchases reviewed were in accordance with GLSP's Accounting Manual's purchasing procedures.

In our opinion, the grantee needs to place more emphasis on establishing and documenting some internal controls. GLSP needs to develop and implement policies and procedures relating to soliciting and awarding contracts. The grantee's current practices involving cost allocation and internal management reporting and budgeting were generally in accordance with the LSC's *Fundamental Criteria*. However, policies and procedures relating to cost allocation and internal management reporting and budgeting need to be fully documented. Also, while management has documented most of its policies and procedures relating to inventory and client trust fund accounting, some procedures need to be added to strengthen internal controls.

Finally, our review noted that the grantee did not have written policies regarding accounting for derivative income. While the grantee did not receive any derivative income during the period under audit, the potential for derivative income has increased in recent years, making it a necessity to have procedures in place to correctly account for and allocate such income when received.

AUDIT FINDINGS

While most areas reviewed had written policies and procedures, we found several areas that needed improvement. Specifically,

- contracting did not have written policies and procedures or adequate established practices in place;
- cost allocation and internal management reporting and budgeting had adequate practices in place but the practices were not documented;
- derivative income needed to have policies and procedures established; and

- client trust funds and fixed assets had written policies and procedures in place but additional procedures need to be documented to strengthen the internal controls.

To maintain an adequate internal control structure, each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria* contained in the LSC Accounting Guide, which requires that financial controls be established to safeguard program resources. Without formal documented policies and procedures, there is no assurance that staff will understand their responsibilities and consistently implement the processes. Formal written policies and procedures are vital to a strong control structure because they ensure that the established controls are communicated to all staff and that appropriate approvals and authorizations are obtained. Further, documented procedures would aid in training and guiding staff when substituting for other staff members or assuming responsibility for the various processes.

GLSP's management stated the Finance Director was new to the job and the existing accounting manual was in place when he started. Discussions with the Finance Director indicated that he realized the GLSP Accounting Manual's deficiencies and the need to update the manual.

1. Contracting policies and procedures need to be established and documented.

Written policies and procedures for contracts and consultants as required by LSC's *Fundamental Criteria* were not in place to describe and assign responsibilities for securing contracts. Some of the major items missing included the following:

- Specific procedures for various types of contracts.
- Competition requirements.
- Approval authorities and dollar thresholds for approvals.
- Documentation requirements to support contracting decisions such as sole source justifications and contract modifications.
- Contract oversight responsibilities.

Of the nine 2012 and 2013 contracts reviewed, GLSP did not document justifications for the three sole source contracts in our sample. This occurred because adequate contracting practices had not been implemented. One of the vendors had two agreements with payments totaling \$30,000 for 2012. Another vendor had an agreement with payments totaling \$21,300 for the year 2012. The third vendor provided services for an average of 10-15 hours a month at \$22.50 per hour, according to invoices reviewed. The contractor was paid a total of \$3,892 in 2012.

Since competitive bidding helps ensure that the best value is obtained, using sole source contracts should be properly justified and the reasons fully documented.

2. Operating practices need to be documented or established.
 - a. In the areas of cost allocation methodology, and internal management reporting and budgeting, we found operating practices were adequate but written policies were not documented.
 - b. Policies and procedures were not developed to account for derivative income. While the program had not received any derivative income during the period under review, the potential for such income has increased due to regulatory changes. Grantees are now allowed to accept attorney's fees (Accounting Guide for LSC Recipients, Chapter 2-2.7, page 17). Therefore, written policies and procedures will help ensure that the grantee properly accounts for and allocates these fees when received.
3. Documented policies and procedures need to be strengthened. In two areas, written policies were missing components necessary to strengthen internal controls.
 - a. Client trust fund accounting policies did not include all necessary requirements of LSC's *Fundamental Criteria*. The written policies did not include procedures for updating the general ledger client trust fund account and reconciling the client trust fund bank account to the general ledger client trust fund account.
 - b. The grantee's inventory/property policies and procedures need strengthening. Specifically, the policies did not include:
 - Capitalization and depreciation policy.
 - Accounting policy for costs of maintaining the law library.
 - Procedures for reconciling the accounting system (SAGE) inventory list to the detailed general ledger.

An updated and complete Accounting Manual helps GLSP staff ensure that proper controls are followed, serves as a vehicle to communicate controls to all staff, and ensures that staff members understand their roles and responsibilities.

Recommendations. The Executive Director should ensure that

Recommendation 1: GLSP's Accounting Manual contains written policies and procedures addressing contracting, cost allocation, internal management reporting and budgeting, and derivative income.

Recommendation 2: Written policies and procedures for client trust funds, and inventory and property address all required areas contained in LSC's *Fundamental Criteria*.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management agreed with the findings and recommendations contained in the report. Grantee management stated the program's entire Accounting Manual will be updated over the next twelve months. Grantee comments also indicated that the updated Manual will address, in writing, all of the issues raised in the report. A copy of Management's response is included as an appendix to this report.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers management comment's responsive to the findings and recommendations contained in the report. The actions planned by grantee management to revise and update the program's Accounting Manual should correct the issues identified in the report. The OIG considers Recommendations 1 and 2 open until notified in writing by the grantee that its Accounting Manual has been revised and updated, and the new policies and procedures are in place and operating.

PHYLLIS J. HOLMEN
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June 12, 2013

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

Dear Mr. Merryman:

We are in receipt of the draft report on your audit of Selected Internal Controls at Georgia Legal Services Program dated June 10, 2013. We appreciate the efforts of your staff on this project and the professional manner in which the audit was conducted. We are also pleased that the results of the audit were generally positive.

As requested, we are providing you here with our plan of action to address the issues that were brought to light during this audit. We are planning to revise and update our entire Accounting Manual over the next twelve months. We will consult LSC's *Fundamental Criteria* posted on the LSC OIG website, and use that material to draft changes to address your report. The updated Manual will include written policies and procedures to address all of the issues raised in your report, specifically contracting, cost allocation, internal management reporting and budgeting, derivative income, client trust funds, and inventory and property.

Once the revised Accounting Manual has been completed and approved, we will forward an electronic copy to your office. At that time, we would welcome any feedback that might further strengthen our policies and procedures.

Again, we thank you for this opportunity to continue to improve our internal controls and fiscal accountability as we work to provide Justice for All in Georgia.

Sincerely,

Phyllis J. Holmen
Executive Director



Offices in Albany, Athens, Atlanta, Augusta, Brunswick, Columbus, Dalton,
Gainesville, Macon, Piedmont, Savannah, Valdosta, and Farmworker Rights Division
AN AFFIRMATIVE ACTION/EQUAL OPPORTUNITY EMPLOYER M/F/H/V