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## ADVISORY

**TO:** EXECUTIVE DIRECTORS OF LSC PROGRAMS  
BOARDS OF DIRECTORS OF LSC PROGRAMS

**FROM:** Jeffrey E. Schanz  
Inspector General

**DATE:** August 23, 2018

**SUBJECT:** Compendium of Internal Control Audit Findings & Recommendations from Reports Issued October 1, 2015 through September 30, 2017

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### INTRODUCTION

The purpose of this advisory is to consolidate and provide insight into the content and frequency of findings and recommendations issued by the Office of Inspector General (OIG).

This advisory summarizes and analyzes the findings and recommendations reported by the Office of Inspector General (OIG) of Legal Services Corporation (LSC) in internal control review audit reports issued October 1, 2015 to September 30, 2017. It also compares the findings and recommendations issued during the period to the Compendium Report, issued by the OIG in December 2015, that summarized the findings and recommendations from audits issued October 1, 2013 to September 30, 2015.

Each year, federal Inspectors General identify and report on top management and performance challenges facing their individual agencies.<sup>1</sup> In addition, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) issues an *Annual Report to the President and Congress* that includes the top challenges faced by many agencies throughout the community. CIGIE issued *Top Management and Performance Challenges Facing Multiple Agencies* in April 2018.<sup>2</sup> The challenges most frequently reported include

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<sup>1</sup> Federal Inspectors General report top management and performance challenges in accordance with and pursuant to the Reports Consolidation Act of 2000.

<sup>2</sup> <https://www.ignet.gov/content/top-challenges>

financial management, procurement management and grant management. The challenges often remain unchanged from year to year.

Our analysis of the results of audits of LSC, reveal that LSC faces some challenges that are similar to those reported across the broader IG community. Additionally, the results of this analysis, when compared to the prior period, indicate that some challenges that LSC experiences also remain unchanged.

## **RESULTS**

From October 1, 2015 to September 30, 2017, the OIG issued 19 internal control audits containing 227 recommendations to improve internal controls at LSC grantees. Of the 227 recommendations, which in this report are categorized into 12 topics, the majority address issues with written policies and procedures, contracting, fixed assets, general ledger and financial controls, and disbursements. The OIG also issued recommendations related to segregation of duties, credit cards, derivative income, cost allocation, internal reporting and budgeting, payroll, and employee benefits.

The Compendium Report issued by our office in December 2015 summarized the findings and recommendations from internal control audits issued October 1, 2013 to September 30, 2015. Compared to that period, in this report we found that written policies and procedures remained consistently deficient among LSC grantees. The OIG recognizes that practices are more advanced than the written policies in place in many areas where we made recommendations. However, we believe that a diligent effort to improve written policies and procedures, and other areas categorized in this report will help secure internal controls and production of high quality work within grantee organizations.

Findings in the areas of contracting, disbursements, and fixed assets also remained consistent over the current compendium reporting period, while general ledger and financial control findings emerged as more significant issues during this reporting period in comparison to the last.

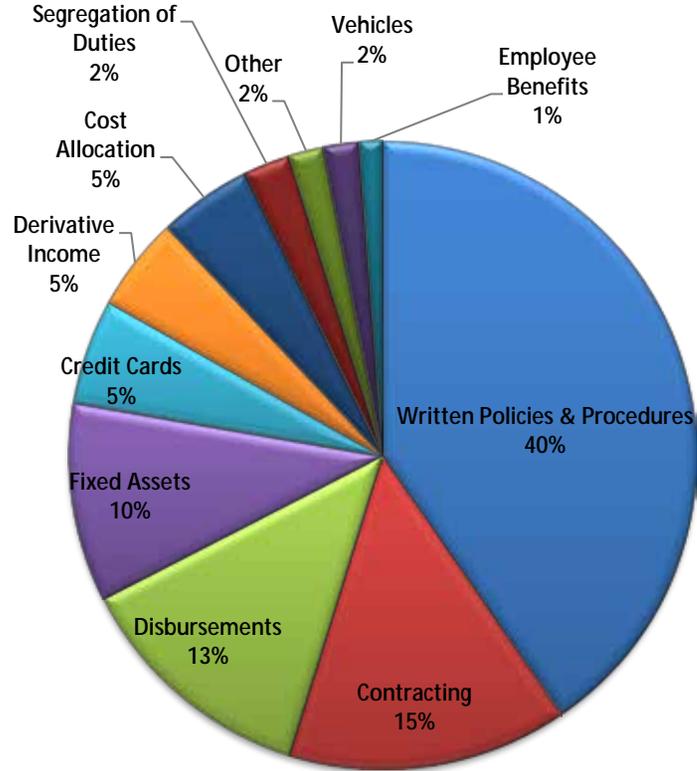
The following charts compare the results of our analysis of findings and recommendations issued during this period, October 1, 2015 to September 30, 2017, to the previous reporting period, October 1, 2013 to September 30, 2015.

*Comparison Summary of Total Recommendations by Topic*

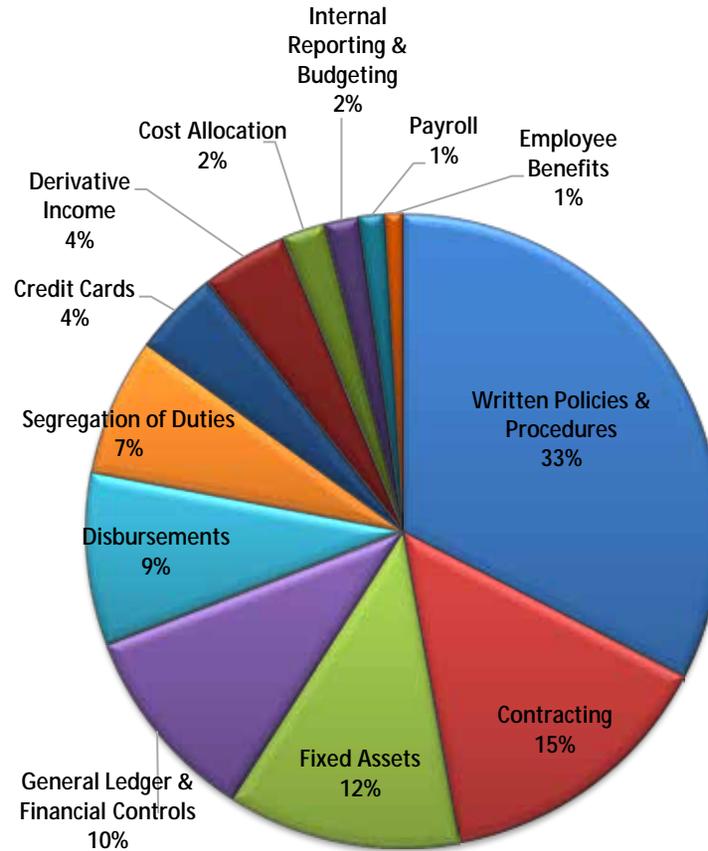
	October 1, 2013 – September 30, 2015		October 1, 2015 – September 30, 2017	
	<u>Number of Recommendations</u>	<u>Percentage of Recommendations</u>	<u>Number of Recommendations</u>	<u>Percentage of Recommendations</u>
Written Policies and Procedures	67	40%	74	33%
Contracting	24	15%	33	15%
Disbursements	21	13%	20	9%
Fixed Assets	17	10%	27	12%
Credit Cards	9	5%	10	4%
Derivative Income	8	5%	10	4%
Cost Allocation	8	5%	5	2%
Segregation of Duties	4	2%	16	7%
Other	3	2%	0	0%
Vehicles	3	2%	0	0%
Employee Benefits	2	1%	2	1%
General Ledger and Financial Controls	0	0%	23	10%
Internal Reporting and Budgeting	0	0%	4	2%
Payroll	0	0%	3	1%
<b>Grand Total</b>	<b>166</b>		<b>227</b>	

*Comparison of Total Recommendations by Topic*

**Percentage of Recommendations from Reports Issued 10/1/13 - 9/30/15**



**Percentage of Recommendations from Reports Issued 10/1/15 - 9/30/17**



We urge you to use this compendium report as a tool to prevent future audit findings and to comply with professional standards and applicable legal and regulatory requirements.

If you have any questions regarding the report, please contact Roxanne Caruso, Assistant Inspector General for Audit, by phone at (202) 295-1582 or by email at [rcaruso@oig.lsc.gov](mailto:rcaruso@oig.lsc.gov).

**LEGAL SERVICES CORPORATION  
OFFICE OF INSPECTOR GENERAL**

**COMPENDIUM OF INTERNAL CONTROL  
AUDIT FINDINGS & RECOMMENDATIONS  
FROM REPORTS ISSUED OCTOBER 1, 2015  
THROUGH SEPTEMBER 30, 2017**

Report No. AU 18-04

August 2018

## INTRODUCTION

This advisory summarizes and analyzes the findings and recommendations reported by the Office of Inspector General (OIG) of Legal Services Corporation (LSC) in internal control review audit reports issued October 1, 2015 to September 30, 2017. It also compares the findings and recommendations issued during the period to the Compendium Report, issued by the OIG in December 2015, that summarized the findings and recommendations from audits issued October 1, 2013 to September 30, 2015.

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 overall objective of OIG internal control audits is to assess the adequacy of selected internal controls in place at each LSC grantee, as they relate to operations, oversight, program expenditures, and fiscal accountability, while ensuring that costs are adequately supported and in compliance with the LSC Act and regulations.

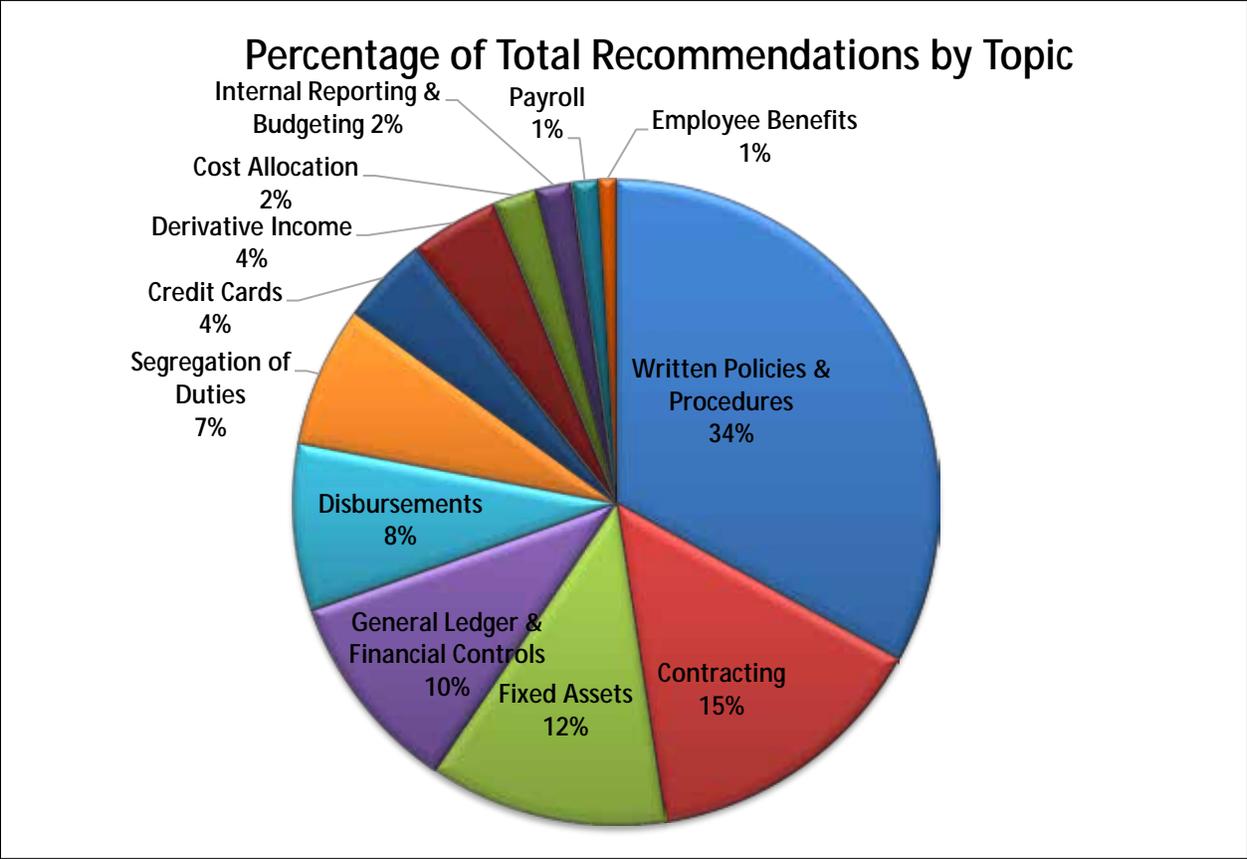
From October 1, 2015 to September 30, 2017, the OIG issued 19 internal control audit reports containing 227 recommendations to improve internal controls at LSC grantees. The recommendations are categorized into 12 topics; the majority of which address issues with written policies and procedures, contracting, fixed assets, general ledger and financial controls, and disbursements. The OIG also issued recommendations related to segregation of duties, credit cards, derivative income, cost allocations, internal reporting and budget, payroll, and employee benefits.

The following exhibits summarize the number of recommendations issued by the OIG from October 1, 2015 to September 30, 2017, by topic and the number of audit reports in which each topic appeared.

*Exhibit 1: Summary of Recommendations by Topic*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Written Policies & Procedures	74	19
Contracting	33	17
Fixed Assets	27	14
General Ledger & Financial Controls	23	10
Disbursements	20	12
Segregation of Duties	16	11
Credit Cards	10	6
Derivative Income	10	7
Cost Allocation	5	2
Internal Reporting & Budgeting	4	3
Payroll	3	2
Employee Benefits	2	2
<b>Grand Total</b>	<b>227</b>	

Exhibit 2: Percentage of Total Recommendations by Topic



**WRITTEN POLICIES AND PROCEDURES**

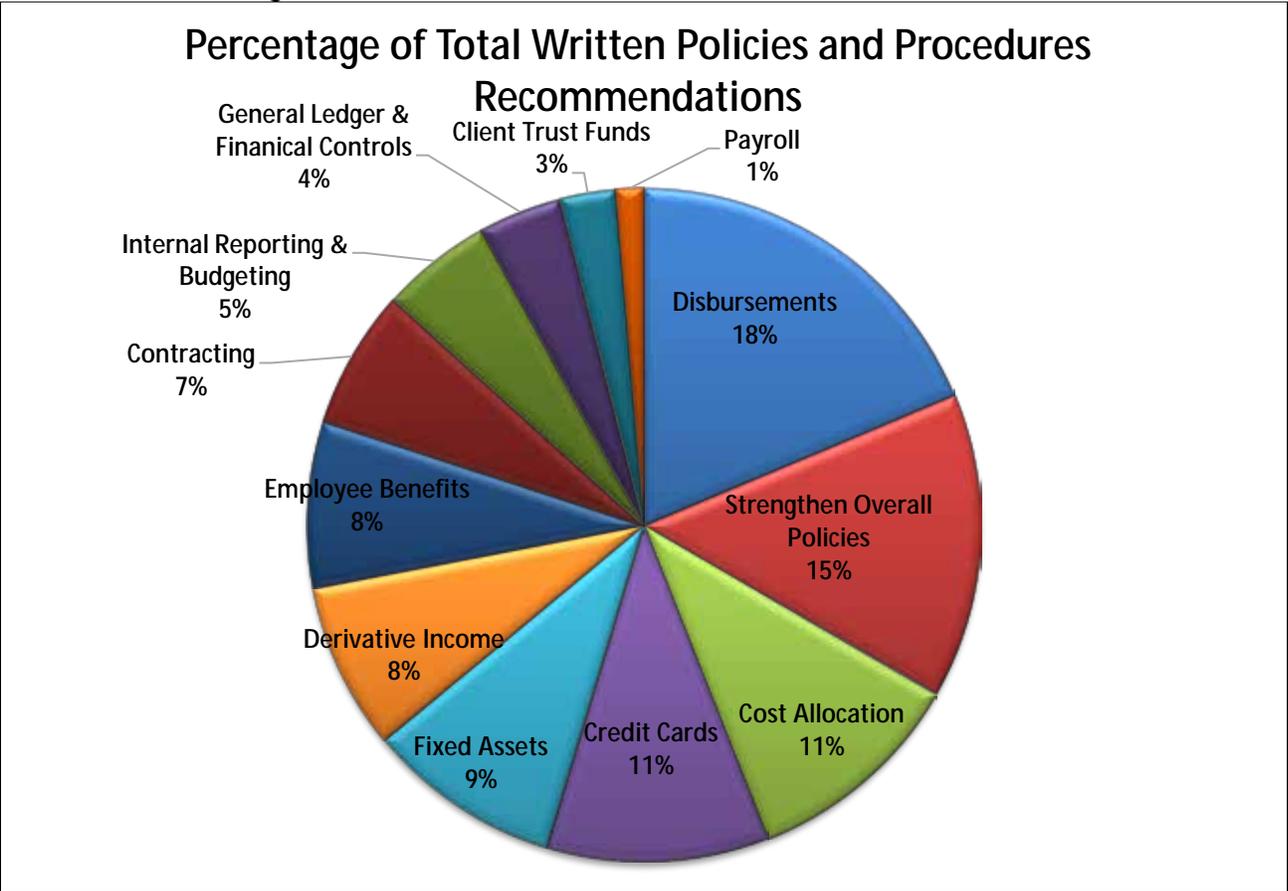
The audit reports issued from October 1, 2015 to September 30, 2017 presented 74 recommendations to develop or enhance written policies and procedures. In our audits, the OIG reviewed and evaluated the adequacy of written policies and procedures pertaining to various areas including, but not limited to, disbursements, cost allocation, credit cards, fixed assets, derivative income, employee benefits, contracting, and internal reporting and budgeting. (Refer to *Exhibit 3: Summary of Written Policies and Procedures Recommendations* for the complete list.) The OIG evaluated accounting and administrative manuals at the various grantees and determined that written policies and procedures in each area needed improvement. For example, in addition to issuing recommendations regarding strengthening overall written policies and procedures, we issued the most recommendations in the following areas: disbursements, cost allocation, credit cards, and fixed assets.

Exhibit 3: Summary of Written Policies and Procedures Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Disbursements*	13	7
Strengthen Overall Policies	11	10
Cost Allocation	8	8
Credit Cards*	8	8
Fixed Assets*	7	6
Derivative Income*	6	5
Employee Benefits	6	4
Contracting	5	5
Internal Reporting & Budgeting	4	4
General Ledger and Financial Controls	3	3
Client Trust Funds	2	1
Payroll	1	1
<b>Grand Total</b>	<b>74</b>	

\* Included among the top five areas with the most recommendations in the prior Compendium Report, Report No. AU 16-02, indicating repeat internal control weaknesses at LSC grantees.

Exhibit 4: Percentage of Total Written Policies and Procedures Recommendations



### Strengthen Overall Policies

Over the two-year reporting period, many of the recommendations issued by the OIG related to improving written policies and procedures across a wide range of categories. As such, we issued 11 recommendations to strengthen overall policies and procedures at ten different LSC grantees. In most cases, we determined that written policies were missing from the grantees' accounting manuals altogether or did not reflect the practices already in place in various areas such as contracting, disbursements, credit cards, fixed assets, and derivative income. When available, many of the written policies did not contain all the key elements required by the *Fundamental Criteria* outlined in the LSC Accounting Guide.

Most grantees indicated they were either unaware of the comprehensive steps required for full compliance or did not realize the need for written policies in specific areas such as those mentioned above.

To address findings related to overall written policies and procedures, the OIG recommended that Executive Directors should:

- establish or update written policies and procedures in all areas to ensure they describe in sufficient detail all processes and controls currently used by the grantees, and are in accordance with LSC's Accounting Guide; and
- train staff on any revisions and additions to written policies to ensure that all new policies are implemented and practiced.

### Disbursements

The OIG issued 13 recommendations to implement, strengthen or update written policies and procedures related to disbursements in seven different grantee audit reports.

Written policies and procedures were not adequately documented for expense accruals, purchase orders, purchase approvals, oversight of Executive Director transactions, unallowable expenses, and usage of E-Z Passes. Commonly, we found that grantee disbursement policies did not outline procedural details such as providing evidence of receipt, documenting pre-approval for purchases, and oversight of Executive Director transactions by the Board of Directors.

The OIG recommended that Executive Directors:

- establish written policies and procedures for approval of purchases. The policies should outline the appropriate level of management that must approve purchases before a commitment of resources is made;
- develop written policies for purchase orders to compare invoices and receiving documents before payments are processed, and ensure evidence of receipt is maintained for all purchases;
- develop and implement a policy requiring that all Executive Director expense reimbursements be reviewed and approved by a member of the Board of Directors; and

- strengthen written policies to ensure they are in accordance with Generally Accepted Accounting Principles (GAAP), and provide clear guidance on LSC allowable versus unallowable costs.

### Cost Allocation

In eight audits, we found that the grantees' accounting manuals did not contain adequate documented policies and procedures over cost allocation. In general, the methodologies did not outline how indirect costs should be allocated among funding sources.

Many of the recommendations issued by the OIG advised grantees to ensure their policies and procedures for cost allocation detail the methodologies practiced by the program and address the requirements of LSC Regulation 45 CFR Part 1630: *Cost Standards and Procedures*, and LSC's Accounting Guide.

The OIG referred \$32,614 in questioned costs to LSC management due to inadequate cost allocation practices by one LSC grantee.

To address issues with documenting cost allocation methodologies, the OIG recommended that Executive Directors ensure that allocation methodologies are fully documented in writing and are consistent with the requirements of 45 CFR §1630.3(e), regarding indirect costs.

### Credit Cards

The OIG reported that written policies and or practices relating to credit cards were not documented appropriately at eight grantees. For example, we found inadequate written policies in place for governing the use of credit cards, including, documentation of issuance and receipt, spending limits, purchase approvals, and acceptable use.

To address findings related to credit card policies and procedures, the OIG recommended that Executive Directors:

- establish written policies and procedures over credit card usage to include spending limits, approval policies, issuance and deactivation, and acceptable use;
- develop a written policy that details procedures for disallowed charges; and
- ensure cardholders adhere to stated policies regarding the submission of receipts for all credit card transactions.

### Fixed Assets

The OIG issued seven recommendations to update written policies and procedures for fixed assets. During six different grantee site visits, we found that written policies and procedures for fixed assets were missing certain property record elements required by LSC's *Fundamental Criteria*. For instance, internal control policies over two vehicles were not detailed in writing at one grantee. Other site visits noted missing elements from fixed asset policies and procedures, including tracking sensitive electronics, disposing of obsolete fixed assets, and establishing a dollar threshold for capitalizing fixed assets.

To ensure written policies and procedures for fixed assets conform with the LSC *Fundamental Criteria*, the OIG recommended Executive Directors:

- document policies related to when and how property inventory is performed and reconciled to property records;
- document the elements required by LSC in property records;
- document procedures for tracking sensitive electronic non-capitalized items; and
- enhance written policies and procedures related to the use of grantee owned vehicles.

### Derivative Income

During the period, the OIG issued five audit reports noting missing or weak written policies and procedures related to documenting derivative income in accordance with LSC regulations.

Four of the five audit reports had no written policies in place relating to the treatment of attorneys' fees, rental income, and interest income.

LSC Regulation 45 CFR §1630.17 provides that,

Derivative income resulting from an activity 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 activity.

To address the findings related to policies and procedures associated with derivative income, the OIG recommended that Executive Directors should:

- ensure grantees develop and implement written derivative income policies that covers all types of derivative income received by their respective grantees, including procedures for rental income and provisions for attorneys' fees outlined in 45 CFR §1609.4; and
- ensure that interest income allocation formulas are adequately documented in writing.

### Employee Benefits

From October 1, 2015 to September 30, 2017, the OIG issued six recommendations to four different grantees to enhance written policies and procedures related to employee benefits. Specifically, we found that many of the employee benefits offered by LSC grantees were not substantiated in grantee accounting or personnel manuals. Such benefit policies included limited rental housing, the Student Loan Reimbursement Assistance Program, cell phone and child care reimbursements, and salary advances.

The OIG recommended that Executive Directors should:

- ensure that all current employee benefits offered to employees are documented in the grantee's personnel or accounting Manuals; and
- strengthen grantee policies over financial benefits such as child care and student loan reimbursements to specifically define amounts, terms, and approvals.

## Contracting

Over the two-year period, the OIG issued five recommendations in response to weak contracting policies and procedures at five grantees. Overall, written policies and procedures for contracts did not include elements required by LSC's *Fundamental Criteria* for identifying various contract types, dollar thresholds, details on processes involved in competitive bidding and selection of vendors, and procedures necessary to administer contracts.

To address findings related to contracting policies and procedures, the OIG recommended that Executive Directors ensure the written contracting policies include:

- policies and procedures associated with competitive bidding and sole-sourcing that contain types of contracts, dollar thresholds, and competition requirements; and
- documentation of policies for contract actions such as the basis for vendor selection and justification for retaining vendors.

## Internal Reporting and Budgeting

The OIG reported that written policies or procedures relating to internal reporting and budgeting were inadequate at four grantees. We found that two out of four grantees had adequate reporting and budgeting processes in place. However, those processes were not formalized in writing. At another grantee, OIG review of the budget policy found it to be inconsistent with practices.

The OIG recommended that Executive Directors should:

- develop written policies and procedures describing the process governing the preparation, content and use of management reports and budgets; and
- ensure the written policies accurately reflect what is done in practice.

## General Ledger and Financial Controls

The OIG issued three recommendations in three audits with findings related to written policies for general ledger and financial controls. Recommendations stemmed from internal control weaknesses related to outstanding checks, review and approval of journal entries, and securing and approving new vendors.

To address weak policies over general ledger and financial controls, the OIG recommended that Executive Directors:

- ensure that policies and procedures incorporate requirements set forth by LSC's Accounting Guide, Appendix II, Bank Reconciliation Procedures;
- update policies and procedures to include review and approval of journal entries by an authorized person; and
- establish and adhere to written policies for securing and approving new vendors to ensure segregation of duties.

## Client Trust Funds

The OIG issued two recommendations regarding weak written policies and procedures for client trust funds. The stated policies did not include a requirement for providing receipts to clients and review of grantee practices reflected the same. In addition, the policies did not provide guidance on periodically reporting client trust fund balances according to state escheat regulations.

To address the findings, the OIG recommended that the Executive Director update written policies and procedures over client trust funds to include a requirement that the client is provided a receipt as stipulated in LSC's Accounting Guide and include procedures to report on client trust fund balances every five years in accordance with state escheat regulations.

## Payroll

Although employee timesheets are approved by the Executive Director, they were not reviewed by the immediate supervisor at one grantee.

The OIG issued one recommendation to update the grantee's personnel manual to state that hours reported on time sheets should be verified and approved by the employee's immediate supervisor.

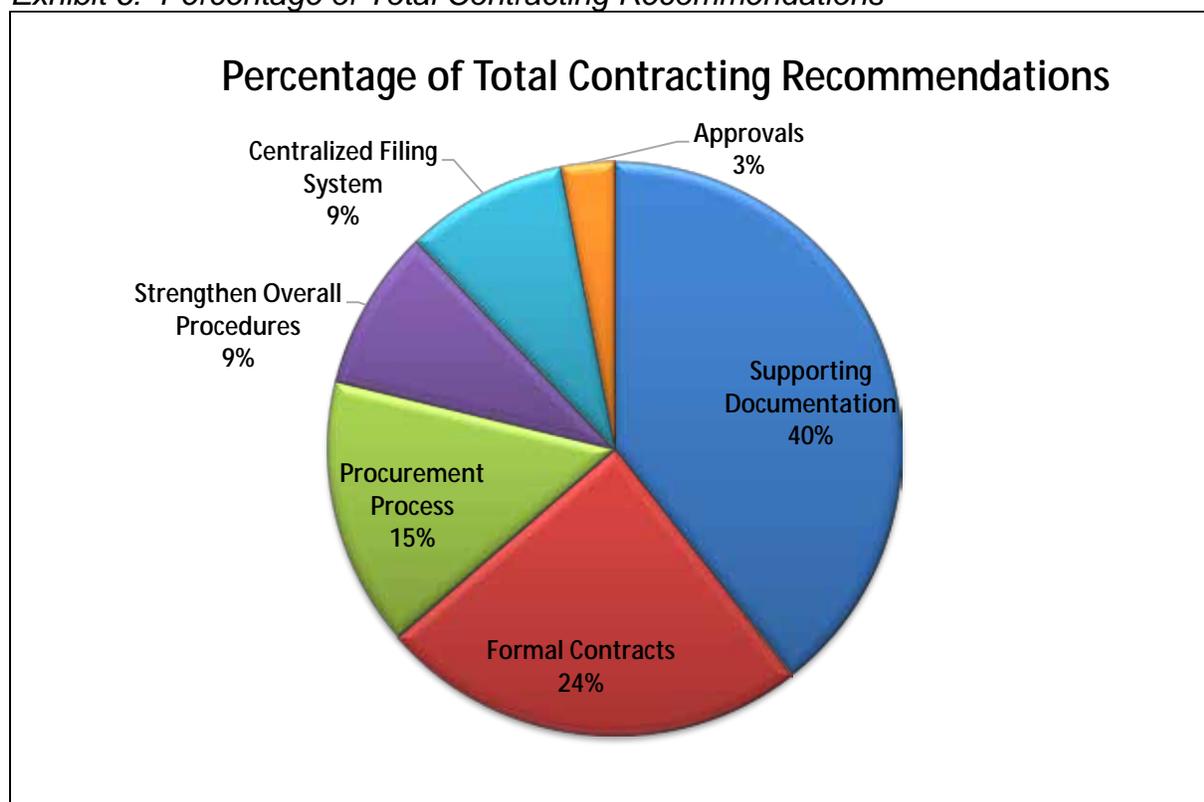
## **CONTRACTING**

From October 1, 2015 to September 30, 2017, the OIG issued 33 recommendations related to contracting. Many of the recommendations related to ensuring contracts are sufficiently documented and that procurement processes adhere to LSC guidance. Additionally, the OIG recommended that grantee management maintain centralized filing systems for documentation related to contracting and properly approve contracts.

### *Exhibit 5: Summary of Contracting Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Supporting Documentation	13	10
Formal Contract	8	7
Procurement Process	5	5
Strengthen Overall Procedures	3	3
Centralized Filing System	3	3
Approvals	1	1
<b>Grand Total</b>	<b>33</b>	

Exhibit 6: Percentage of Total Contracting Recommendations



### Supporting Documentation

During the period, the OIG found that documentation to support contracts was insufficient at 10 different grantees. We found that contracts did not have adequate supporting documentation to justify processes for contract actions, sole source justification was not documented when grantees awarded contracts without competition, and the reason for vendor selection was not adequately documented.

The LSC *Fundamental Criteria*, 3-5.16, Contracting, provides that all documentation supporting competition and the process used for each contract action should be maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved, and maintained in a contract file. Proper documentation helps ensure the approved contract has followed all established procedures.

To address findings related to supporting documentation for contracting, the OIG recommended that Executive Directors ensure contracting procedures adhere to LSC's *Fundamental Criteria*, specifically that:

- the process for each contract action is fully documented and maintained, including solicitation of competitive bids, sole source justification, and the vendor selection process, to address the elements required by the *Fundamental Criteria* for documentation and approval requirements;

- all contracts are documented and maintained in a central file and the statement of work within contracts is sufficiently detailed so that contract deliverables can be identified and monitored to ensure completeness; and
- contracts are reviewed periodically to ensure the written terms are current and work performed by the vendor is verified.

### Formal Contracts

Eight recommendations related to formal contracts were issued to seven grantees during the period. For instance, the OIG identified that five out of seven grantees were missing documented contractual agreements for services provided. Of the five grantees, 10 of 28 (36%) vendors tested did not have contracts on file, and most of the contracts available lacked important terms such as start and end dates.

To address the findings related to formal contracts, the OIG recommended that Executive Directors should ensure:

- all products and services obtained are performed within specific agreed upon terms and supported by a formal document;
- contracts are written, signed, and filed in a central location for all business arrangements, especially those recurring in nature; and
- all relevant contract terms, such as selling price and payment, are stipulated in the contract before it is executed.

### Procurement Process

In five audits, the OIG found that grantees did not periodically evaluate or reopen contracts for bidding. Additionally, for many sole source contracts, there were no justifications on file. It is best practice that all contracts, especially older contracts, be reopened for bid to ensure that the grantee is receiving the best price and service available.

To address the findings, the OIG recommended that Executive Directors periodically evaluate the service agreements and ensure contracts are competed, when required to obtain the best available price and service, as required by LSC's *Fundamental Criteria*. If a contract is appropriately sole sourced, the grantee should prepare, maintain, and file sole source justification.

### Centralized Filing System

Three recommendations issued in three audit reports focused on the need for a centralized filing system. We found that contracts and related documentation were not filed in a central location. Management was often unable to locate contract agreements and supporting documentation, and therefore, was unable to determine why some contracts were not complete or updated.

The OIG recommended that Executive Directors ensure that all contracts and supporting documentation for contract actions be filed in a central location.

## Approvals

The OIG issued one recommendation related to inadequate contracting approvals. Of the 20 contracts reviewed during the audit, 14 did not include proper approval documentation. For example, six contracts were missing an approval and others included approvals that were not dated.

The OIG recommended that the Executive Director review, approve, and properly date all contracts that were not previously approved, as well as all future contracts moving forward.

## Strengthen Overall Procedures

Three recommendations to strengthen overall contracting procedures were issued during the period. Each recommendation involved multiple issues in various areas of contracting, including documenting solicitation of bids, sole source justification, vendor selection reasoning, centralized filing systems, and defined dollar thresholds.

The OIG recommended that grantees ensure that procedures adhere to LSC's *Fundamental Criteria* and processes used for each contract action are fully documented, including the rationale for decisions made.

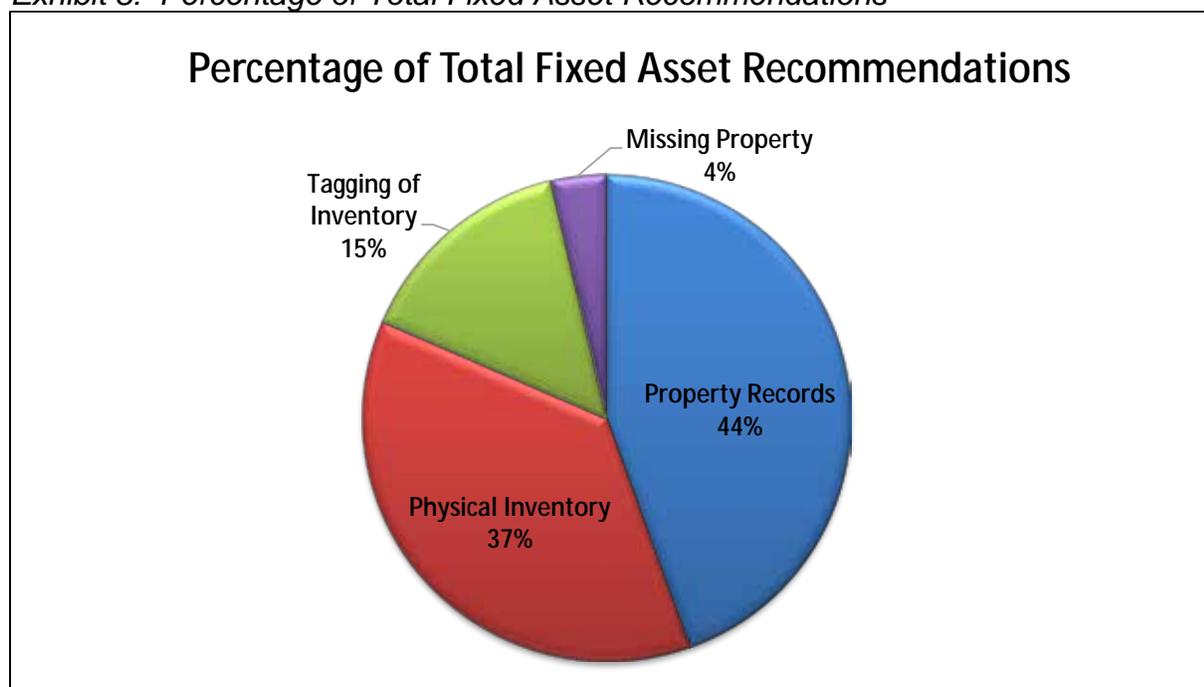
## **FIXED ASSETS**

The OIG issued 28 recommendations regarding fixed assets in audits issued from October 1, 2015 to September 30, 2017. Recommendations issued related to improving practices over property records, physical inventory, tagging of inventory, and missing property.

### *Exhibit 7: Summary of Fixed Asset Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Property Records	12	11
Physical Inventory	10	10
Tagging of Inventory	4	4
Missing Property	1	1
<b>Grand Total</b>	<b>27</b>	

Exhibit 8: Percentage of Total Fixed Asset Recommendations



### Property Records

In eleven audits, we found that property records were not up-to-date and were missing data fields required by LSC's *Fundamental Criteria*. Common missing elements included the check number, salvage value, fair value, method of valuation, depreciation method, and funding source.

We found weak practices related to the reconciliation of property records, such as not updating asset registers and grouping items together within property records versus recording individually. In addition, many of the tested items included within the property records could not be located. The *Fundamental Criteria*, Section 3-5.4 (c), lists all the elements that should be included in the property records.

To address issues with inadequate property records, the OIG recommended that Executive Directors:

- strengthen practices by updating the property records with the required elements of a property record in accordance with LSC Accounting Guide, Section 3-5.4(c), ensuring all fields are completed for all office locations;
- ensure records accurately detail fixed assets currently in use by the grantee and are updated regularly to reflect all purchases, disposals, and retirements;
- ensure the total dollar value of individual items capitalized and included on the property records are reconciled to the fixed assets account balances included within the general ledger; and

- ensure that assets are individually recorded in the property records.

### Physical Inventory

During the period, the OIG found that 10 grantees did not perform an adequate physical inventory of capitalized assets once every two years, as required by LSC's *Fundamental Criteria*. All 10 recommendations addressed the need for physical inventories to be performed within the two-year time frame for all grantee locations and the results be reconciled to the fixed assets property accounting records.

Two of the recommendations pertained to discrepancies found in master inventory lists. Examples included missing items, duplicate tag numbers for different items, missing data fields, and adding identification numbers to property tags.

The LSC Accounting Guide stipulates that the result of the physical inventory should be reconciled with the property accounting record. Specifically, the property subsidiary record must agree with the general ledger property accounts.

To address findings related to physical inventory, the OIG recommended that Executive Directors should:

- ensure that a physical inventory of all fixed assets and electronic devices is performed every two years;
- properly account for fixed assets by adding identification numbers to property tags; and
- ensure any discrepancies between quantities determined by the physical inspection and those shown in the accounting records are investigated and addressed.

### Tagging of Inventory

The OIG issued four recommendations to improve inventory tagging procedures. Our review of fixed assets practices revealed that grantees do not always tag property.

The OIG recommended that Executive Directors ensure:

- fixed assets are assigned unique asset identification numbers and are tagged accordingly;
- property records are maintained with corresponding tag numbers; and
- grantees adhere to their policies and procedures for tagging inventory.

### Missing Property

The OIG found one instance of missing property at a grantee. Seven laptops were considered missing as they were unable to be tracked to a specific person or location. The OIG recommended that the Executive Director investigate what happened to the

missing laptops, determine if they could be located, and update the property records accordingly.

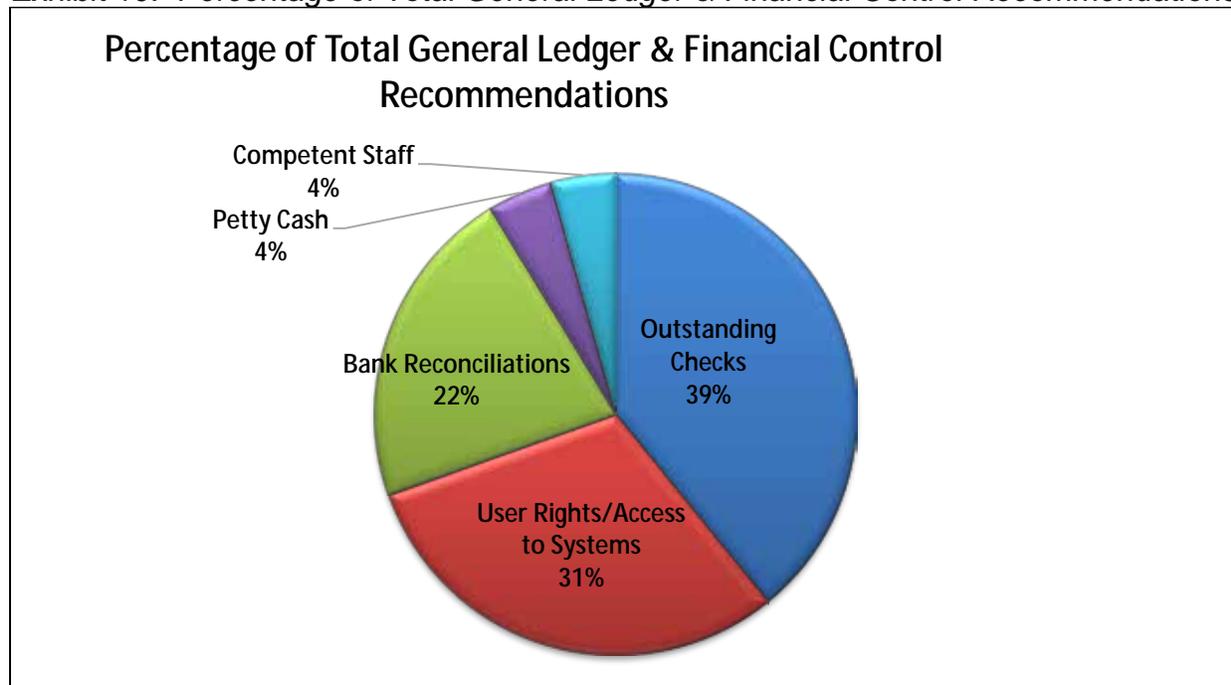
## GENERAL LEDGER & FINANCIAL CONTROLS

From October 1, 2015 to September 30, 2017, the OIG issued 23 recommendations regarding general ledger and financial controls. The recommendations related to issues in handling outstanding checks, user rights/systems access, bank reconciliations, training, and supporting documentation.

*Exhibit 9: Summary of General Ledger & Financial Control Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Outstanding Checks	9	9
User Rights/Access to Systems	7	4
Bank Reconciliations	5	5
Petty Cash	1	1
Competent Staff	1	1
<b>Grand Total</b>	<b>23</b>	

*Exhibit 10: Percentage of Total General Ledger & Financial Control Recommendations*



### Outstanding Checks

During the two-year period, the OIG found instances at nine different grantees where outstanding checks were not resolved properly or within a reasonable timeframe. In some cases, the outstanding checks were over a year old.

The LSC Accounting Guide stipulates that grantees investigate and resolve checks that are outstanding for over six months.

The OIG recommended that Executive Directors develop, adopt, and adhere to policies and procedures regarding outstanding checks that conform to LSC guidance and ensure journal entries are recorded in the general ledger.

#### User Rights / Access to Systems

The OIG noted instances of weak internal controls over user access rights and systems access at four different grantees. We found that employees shared usernames and passwords, users' access rights were not assigned according to job responsibilities, and passwords did not expire.

The OIG recommended that Executive Directors enhance internal controls over user access rights and systems access by establishing unique profiles for employees and expirations for employee passwords.

#### Bank Reconciliations

The OIG issued five recommendations to improve bank reconciliation procedures. During OIG review, we found bank reconciliations were not always performed in a timely manner, were missing approvals or dates, and included checks outstanding for over six months.

Section 3-5.2(d), Annual Financial Statements and Audit Reports, of the LSC Accounting Guide stipulates that reconciliation of bank statements to the general ledger should be performed monthly by persons independent of cash keeping duties, check signing duties, and cash bookkeeping duties.

The OIG recommended that Executive Directors ensure that bank reconciliations are performed monthly, appropriately documented, and approved.

#### Other

In two additional audits, the OIG found other isolated issues related to general ledger and financial controls. We found four of six petty cash accounts were replenished without adequate supporting documentation at one grantee; and the other grantee did not have competent, adequately trained personnel managing accounting duties.

To address the stated issues, the OIG recommended that the Executive Director should:

- ensure that supporting documentation is received and reviewed prior to replenishing the petty cash; and
- consider hiring a trained accountant to properly account for and report financial transactions.

### **DISBURSEMENTS**

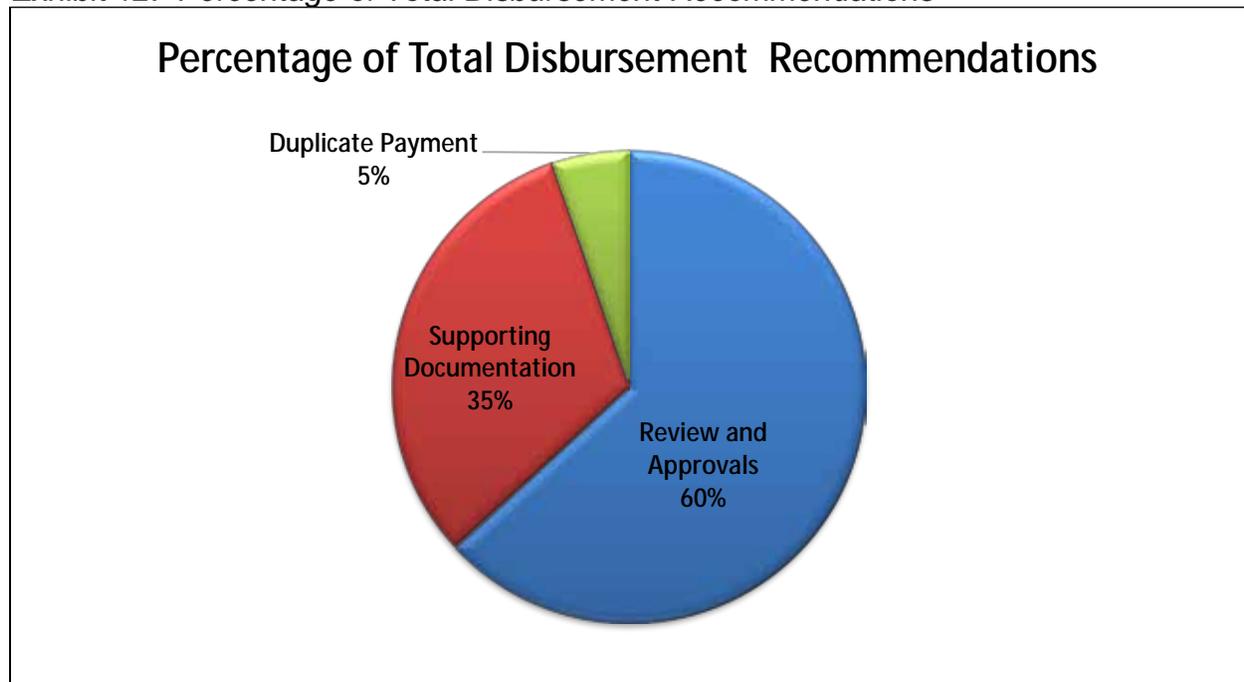
In audits issued from October 1, 2015 to September 30, 2017, the OIG found that internal controls over disbursements needed strengthening. Over the two-year period, the OIG issued 20 recommendations related to disbursements. The issues related to weaknesses

regarding proper review and approval, obtaining supporting documentation for purchases, and prevention of duplicate payments.

*Exhibit 11: Summary of Disbursement Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Review and Approvals	12	9
Supporting Documentation	7	6
Duplicate Payment	1	1
<b>Grand Total</b>	<b>19</b>	

*Exhibit 12: Percentage of Total Disbursement Recommendations*



Review and Approvals

During the period, we found that nine grantees failed to follow adequate purchase approval processes. Common examples included purchases being approved after commitment of resources were made or not at all, lack of a formal pre-approval process for staff travel, check forms missing all or one of the two required signatories, lack of Board oversight of Executive Director reimbursements, and missing dates on approved invoices.

Section 3-5.4 of the Accounting Guide, Cash Disbursements, states that approval should be required at an appropriate level of management before making a commitment of resources. It also states that criteria for purchases should be documented along with appropriate procedures.

In response to the findings, the OIG issued twelve total recommendations for Executive Directors to ensure:

- all non-recurring disbursements have an approved check request form attached, as applicable;
- approvals for all purchases are made at an appropriate level of management before a commitment of resources is made, including Board oversight for the Executive Director's expenses;
- approvals are dated to document when they occurred and whether they were made timely;
- purchases are approved in accordance with the grantee's written policy; and
- a formal written approval process for staff travel is implemented, and require documentation to support attendance at meetings, conferences, and training.

### Supporting Documentation

At six different grantees, the OIG found that disbursements were not supported with appropriate documentation. Examples of missing supporting documentation included transactions without a supporting receipt or invoice, transactions without pre-approvals, hotel expenses without a documented reason, proof of attendance to support travel reimbursements, and purchases without documentation of sufficient number of bids.

Section 3-5.4(c), Recordkeeping, of the Accounting Guide, states an organized method shall be established to accumulate and file all documents relating to a disbursement for future reference. Inadequate documentation can result in unauthorized disbursements while proper documentation helps ensure that the approved purchases or contracts follow all established procedures.

The OIG recommended that Executive Directors ensure all disbursements, including debit card expenses, have the proper supporting documentation so that purchases and reimbursements are fully supported. In addition, purchases requiring multiple bids have proper documentation maintained in the vendor file, including any deviation from established purchasing procedures.

### Master Vendor List

The OIG found one instance where the master vendor list was never updated or purged at any point in time to reflect inactive vendors. Adequate maintenance of the master vendor list reduces potential for fraudulent payments made to fictitious vendors.

The OIG recommended that the Executive Director ensure adequate maintenance and routine updating of the master vendor list to reflect current vendors.

### Duplicate Payments

One recommendation was issued regarding lack of controls to prevent duplicate payments. The OIG found invoices with missing stamps or other markings to indicate

payments were made. The *Fundamental Criteria* Section 3-5.4(a) states documents should be marked paid or otherwise canceled to avoid duplicate payment. The check number and pay date should also be noted on the invoice or other supporting documentation.

The OIG recommended that the Executive Director ensure that staff mark all disbursement documents as paid to avoid duplicate payments.

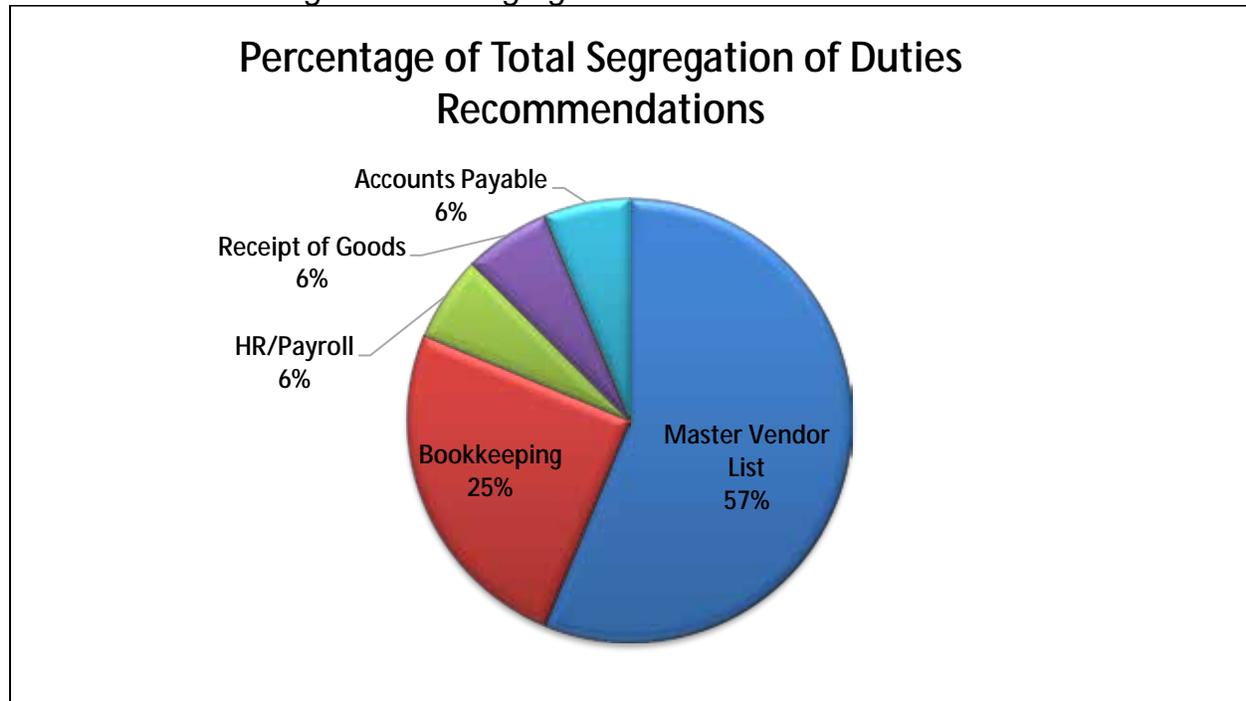
**SEGREGATION OF DUTIES**

Over the two-year period, the OIG issued 16 recommendations to implement or enhance segregation of duties at multiple grantees. We found that maintaining the master vendor list, bookkeeping, and other accounting duties were not properly segregated.

*Exhibit 13: Summary of Segregation of Duties Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Master Vendor List	9	9
Bookkeeping	4	2
HR/Payroll	1	1
Receipt of Goods	1	1
Accounts Payable	1	1
Grand Total	16	

*Exhibit 14: Percentage of Total Segregation of Duties Recommendations*



## Master Vendor List

The OIG issued nine recommendations to improve segregation of duties over the master vendor list. We found that in general, employees who maintained the vendor list also performed accounts payable functions that included initiating and processing payments.

The LSC Accounting Guide, Section 3-4.3 stipulates that accounting duties should be segregated to ensure that no individual simultaneously has both physical and record keeping control for any asset, including but not limited to, cash, client deposits, supplies, and property. Duties must be segregated so that no individual can initiate, execute, and record a transaction without a second independent individual involved in the process.

The OIG recommended that Executive Directors implement policies and procedures over maintenance of the master vendor list that would restrict the ability to create and change the list to selected individuals that are not involved in the payment process and ensure the master vendor list is regularly purged and maintained to reflect current information of active vendors.

## Bookkeeping

During our audits, we noted checks were endorsed or deposited by individuals who had access to the accounting systems. We also noted the staff responsible for performing bank reconciliations, were also responsible for bookkeeping duties, including preparing and posting journal entries.

The OIG recommended Executive Directors ensure that proper segregation of duties is in place to ensure staff members responsible for endorsing and making deposits do not also have access to the accounting system and the staff responsible for bank reconciliations do not have bookkeeping duties.

## Other

In three additional audits, the OIG found other duties lacking segregation. Functions such as the purchasing and receiving of goods, entering human resource (HR) information into payroll systems, and various other accounts payable duties were not adequately segregated.

To ensure proper segregation of duties within the stated functions, the OIG recommended that Executive Directors ensure:

- staff independent of the purchasing and accounts payable functions receive and review goods for their condition and completeness when they arrive; and
- HR, payroll, and payment reconciliation functions are adequately segregated and restricted.

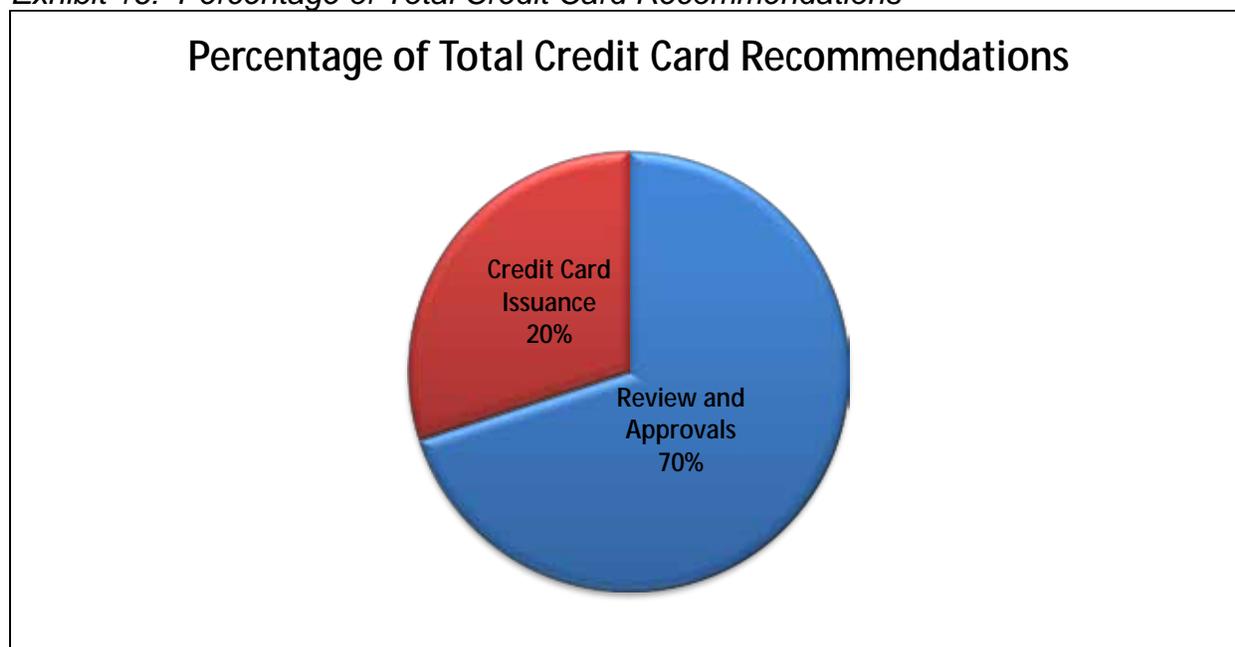
## CREDIT CARDS

From October 1, 2015 to September 30, 2017, the OIG issued ten recommendations regarding the usage of credit cards, the majority of which focused on review and approval of credit card transactions. The remaining recommendations addressed controls over the issuance of credit cards and supporting documentation for purchases.

*Exhibit 15: Summary of Credit Card Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Review and Approvals	7	4
Credit Card Issuance	3	3
Grand Total	10	

*Exhibit 16: Percentage of Total Credit Card Recommendations*



### Review and Approvals

The OIG found that various credit card transactions at four grantees were not appropriately reviewed and approved as required by LSC's *Fundamental Criteria*. The OIG issued seven recommendations to improve the review and approval process related to credit card reconciliations, authorization and issuance of credit cards to staff, requisite documentation of purchases, and Board member review of Executive Director transactions.

Lack of review and approval procedures was a common theme among the findings related to credit cards. The *Fundamental Criteria*, Section 3-5.4(a) states that approvals should be required at an appropriate level of management before a commitment of resources is made.

To address these findings, the OIG recommended that Executive Directors should:

- review and document credit card reconciliations;
- document requisite approvals for credit card purchases, including instances where purchase amounts cannot be pre-determined;
- require Board member review and approval of Executive Director’s purchases and reimbursable expenses; and
- ensure that authorization and issuance of credit cards to staff members are documented and maintained on file.

### Credit Card Issuance

The OIG issued three recommendations regarding the issuance of credit cards and cardholder training documentation. At one location, we found that the grantee had only one debit card, with no set limit of users, and was in the name of the prior Executive Director. We also found that employees at two other locations were not required to sign a user agreement acknowledging receipt of a credit card and agreeing to the terms of usage. In one of those instances, the grantee failed to obtain the appropriate documentation to support cardholder training certification.

The LSC *Fundamental Criteria*, Section 3-5.1 stipulates that financial controls should be clearly defined and evidenced by documentation identifying authority delegated to supervisory and other personnel to initiate and approve financial transactions.

In one instance, the OIG recommended that the Executive Director of one grantee obtain a new credit card issued in the name of one individual actively working in a permanent position. In the other two instances, the OIG recommended that Executive Directors establish written agreements for each cardholder, stipulating restricting use to business purposes only and accountability for any personal charges made with grantee credit cards; and ensure that signed certification of training documentation is obtained for all cardholders.

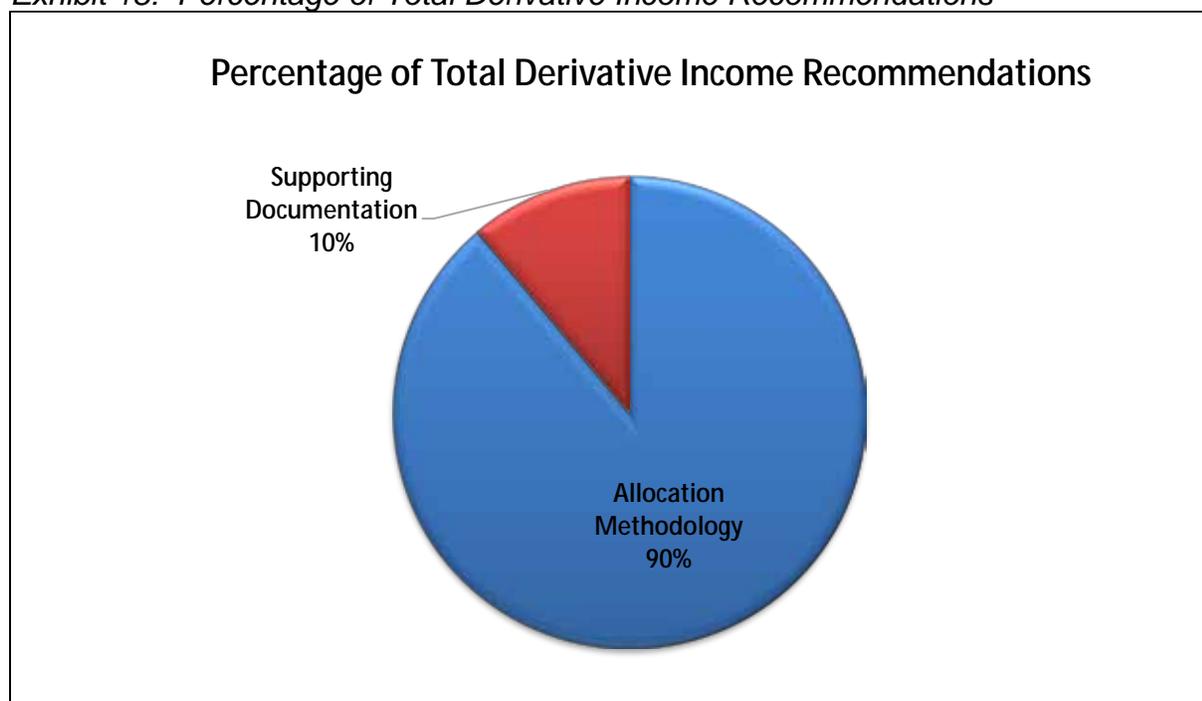
## **DERIVATIVE INCOME**

From October 1, 2015 to September 30, 2017, the OIG issued ten recommendations regarding derivative income. The recommendations addressed issues related to the allocation of attorneys’ fees, rental income, interest, and investment income; as well as maintenance of sufficient accounting records.

### *Exhibit 17: Summary of Derivative Income Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Allocation Methodology	9	7
Supporting Documentation	1	1
<b>Grand Total</b>	<b>10</b>	

*Exhibit 18: Percentage of Total Derivative Income Recommendations*



At seven grantees, we found that the allocation methodologies used in practice were not in accordance with LSC regulations.

In two instances, attorneys' fees were awarded to the funding source assigned to the case rather than allocated by the hours charged by the attorneys. At other grantees, rental, interest, and investment income were not properly allocated to LSC during the period under review. In one other instance, the grantee did not maintain sufficient records to document the fund sources to support cash and investment account balances. As a result, the OIG could not verify whether the interest income allocated to LSC was accurate.

The OIG referred a total of \$68,801 of questioned costs to LSC management, which included \$65,803 for attorneys' fees, and \$2,998 for rental income.

As previously stated, LSC Regulation 45 CFR §1630.17 provides that:

Derivative income resulting from an activity 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 activity.

To address the issues of allocation of derivative income, the OIG recommended that Executive Directors should:

- develop a written derivative income policy and attorneys' fees policy that mirror requirements contained in 45 CFR Part 1609;

- ensure that attorneys' fees are allocated in accordance with the requirements specified in 45 CFR §1609.4;
- ensure interest, investment, and rental income are allocated among funding sources in accordance with the respective grant conditions, the requirements specified in 45 CFR 1630.17, and the grantee's written policy; and

maintain adequate financial records to support allocation of interest income among the various funding sources.

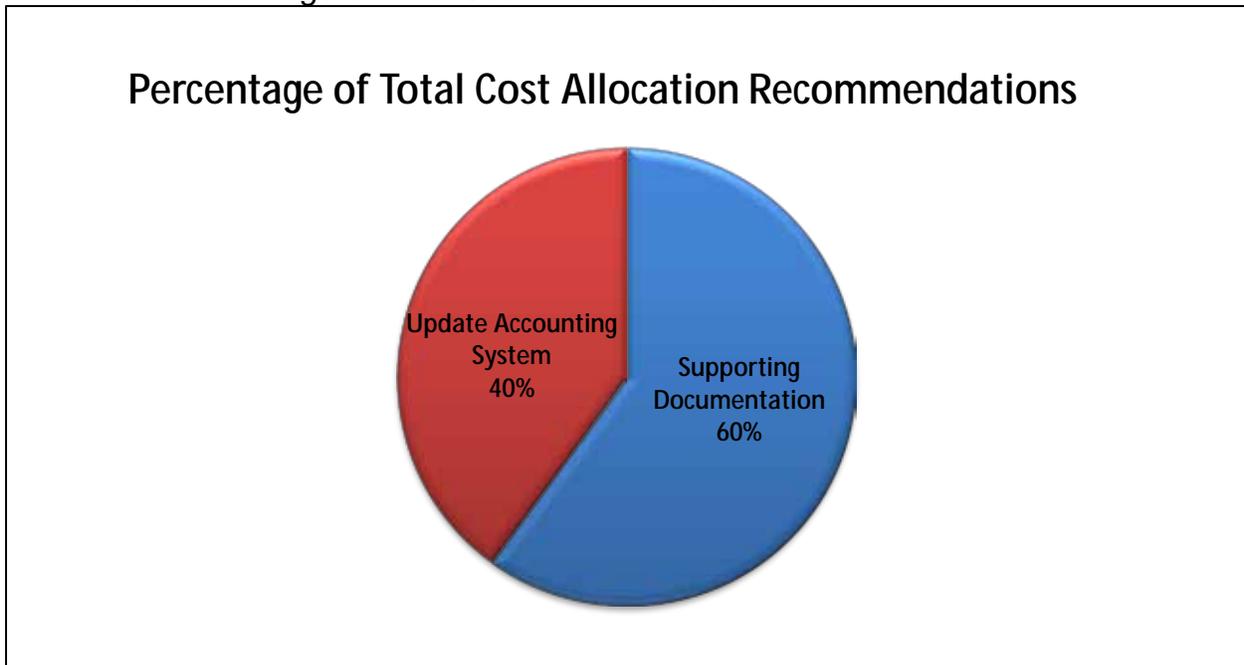
### **COST ALLOCATION**

Over the two-year period, the OIG issued five recommendations related to cost allocation. Our findings revealed audit trails need to be established by improving supporting documentation for all transactions and allocation schedules.

*Exhibit 19: Summary of Cost Allocation Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Supporting Documentation	3	2
Update Accounting System	2	2
<b>Grand Total</b>	<b>5</b>	

*Exhibit 20: Percentage of Total Cost Allocation Recommendations*



### Supporting Documentation

Two grantees did not retain the proper supporting documentation to adequately record cost allocations. As a result, the grantees' accounting systems did not provide an adequate audit trail to perform testing of allocated costs.

The OIG recommended that Executive Directors ensure an audit trail is established with supporting documentation for all allocation schedules.

### Update Accounting System

We noted that management reports at two grantees did not provide funding source detail. The accounting systems were not setup by funding source at either grantee, and as a result, allocations were often not traceable to the general ledger. Consequently, the OIG was unable to determine whether LSC was charged its proper share of costs incurred by the grantees.

The OIG recommended that Executive Directors set up the accounting systems to allocate expenses by funding source to ensure the ability to produce budgets derived by cost centers, generate flexible reports by funding source detail and provide an adequate audit trail.

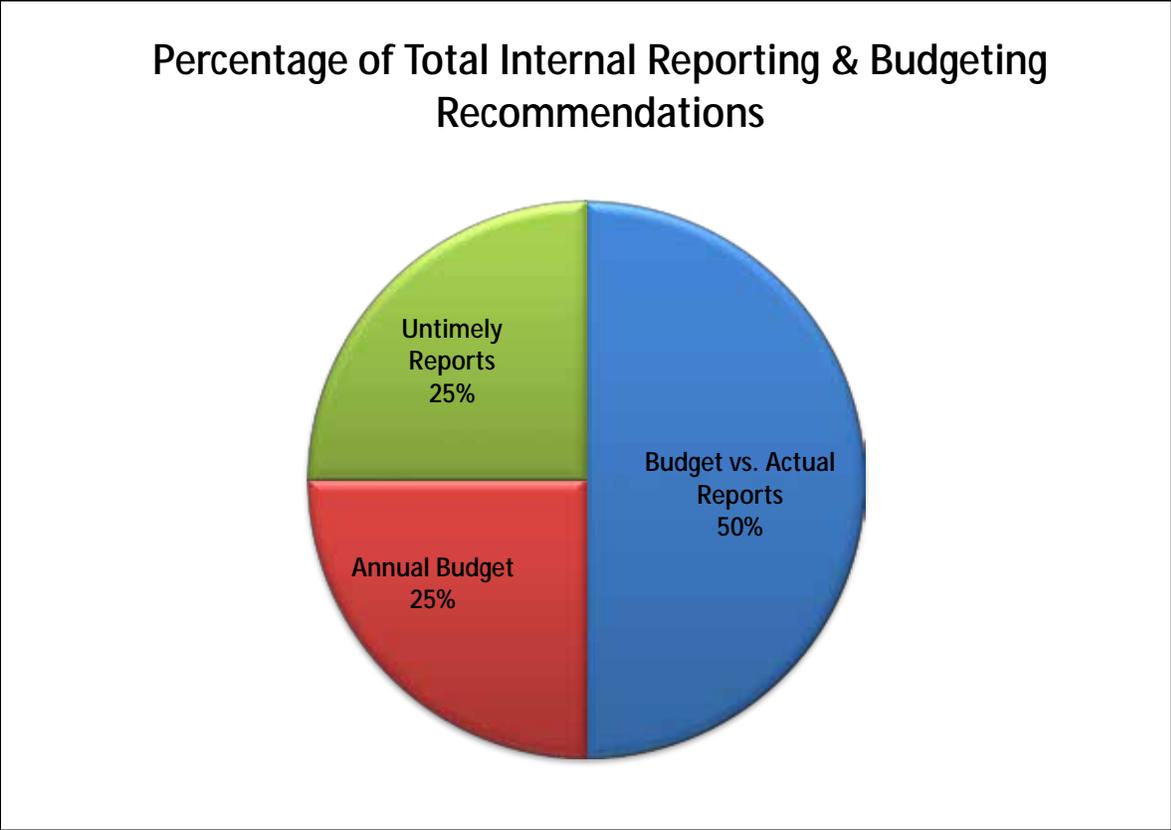
## **INTERNAL REPORTING & BUDGETING**

Four recommendations issued by the OIG relate to weak internal reporting and budgeting practices. Two of three grantees did not prepare budgeted versus actual variance reports as part of their quarterly reporting process. The other grantee did not prepare timely reports and did not have an annual budgeting process in place.

*Exhibit 21: Summary of Internal Reporting & Budgeting Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Budget vs. Actual Reports	2	2
Annual Budget	1	1
Untimely Reports	1	1
Grand Total	4	

Exhibit 22: Percentage of Total Internal Reporting & Budgeting Recommendations



The OIG recommended that Executive Directors should ensure management reports, including annual budgets and budget versus actuals, are prepared timely and in accordance with LSC's *Fundamental Criteria*.

**PAYROLL**

From October 1, 2015 to September 30, 2017, the OIG issued three recommendations at two grantees to improve review and approval functions within payroll. At one grantee, we found a payrate increase without appropriate management approval as well as a lack of segregation of duties over payroll and HR duties. The other grantee did not follow its own timesheet approval procedures of signing timesheets and keeping record of all approvals.

Exhibit 23: Summary of Payroll Recommendations

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Review and Approvals	3	2
Grand Total	3	

*Exhibit 24: Percentage of Total Payroll Recommendations*



The OIG recommended that Executive Directors should follow their own policies over approval and documentation of payroll changes, especially when full segregation of duties is impractical; and lastly, formally review and sign timesheets while keeping record of e-mail approvals.

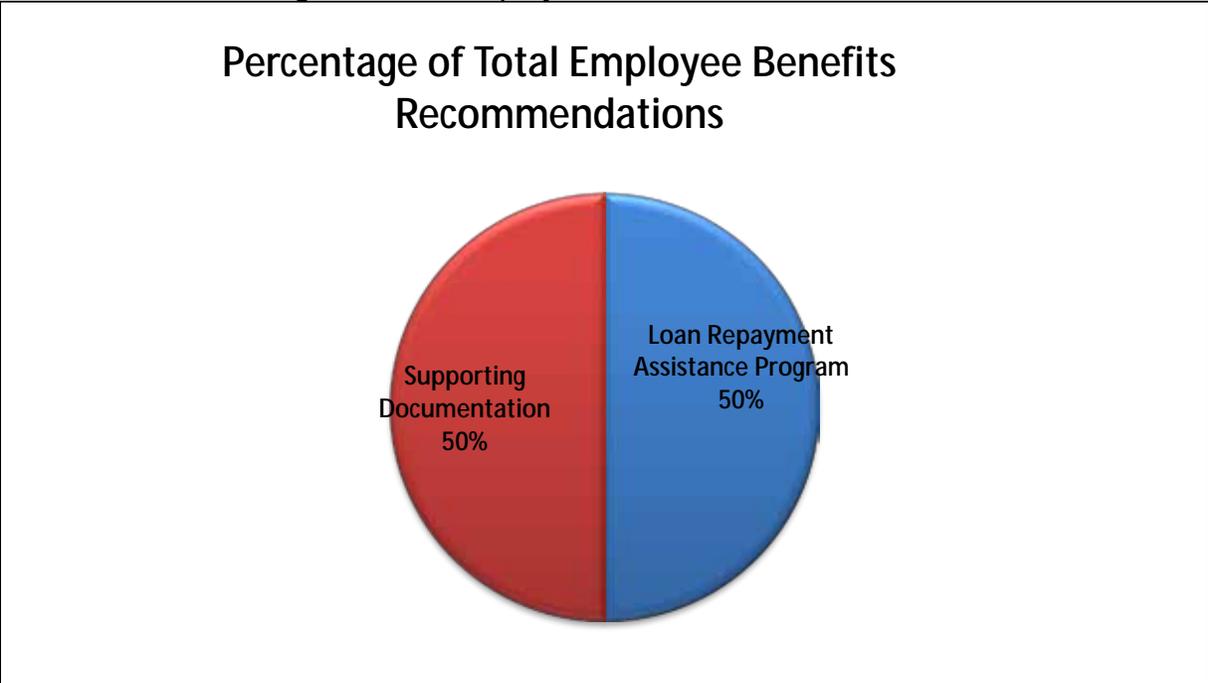
**EMPLOYEE BENEFITS**

The OIG issued two findings related to employee benefits at two separate grantees. In one instance, the grantee’s Loan Repayment Assistance Program was not monitored to ensure awarded funds were used toward their intended purpose, or to ensure payments were made on the loan balance. In the other instance, two employee reimbursements for textbooks were not supported with receipts; one of the reimbursements did not have documentation for approval.

*Exhibit 25: Summary of Employee Benefits Recommendations*

Finding/Recommendation Topic	Number of Recommendations	Number of Audit Reports
Loan Repayment Assistance Program	1	1
Supporting Documentation	1	1
<b>Grand Total</b>	<b>2</b>	

Exhibit 26: Percentage of Total Employee Benefits Recommendations



To remedy the findings, the OIG recommended that Executive Directors implement a process to monitor outstanding employee loan balances and ensure that all reimbursements are properly supported with receipts.

**CONCLUSION**

Like the first compendium report of OIG findings and recommendations issued fiscal years 2014 and 2015, written policies and procedures remained consistently deficient among certain LSC grantees. Findings in the areas of contracting, disbursements, and fixed assets also remained consistent over the current compendium reporting period, while general ledger and financial control findings emerged as more significant issues during this reporting period in comparison to the last. The OIG recognizes that practices are more advanced than the written policies in place in many areas where we made recommendations. However, we believe that a diligent effort to improve written policies and procedures, and other areas categorized in this report will help secure internal controls and production of high quality work within grantee organizations. We urge grantees to continue to use this capstone report as a tool to prevent future audit findings and to comply with professional standards and applicable legal and regulatory requirements.

*Exhibit 27: Comparison Summary of Total Recommendations by Topic*

	October 1, 2013 – September 30, 2015		October 1, 2015 – September 30, 2017	
	Number of Recommendations	Percentage of Recommendations	Number of Recommendations	Percentage of Recommendations
Written Policies and Procedures	67	40%	74	33%
Contracting	24	15%	33	15%
Disbursements	21	13%	20	9%
Fixed Assets	17	10%	27	12%
Credit Cards	9	5%	10	4%
Derivative Income	8	5%	10	4%
Cost Allocation	8	5%	5	2%
Segregation of Duties	4	2%	16	7%
Other	3	2%	0	0%
Vehicles	3	2%	0	0%
Employee Benefits	2	1%	2	1%
General Ledger and Financial Controls	0	0%	23	10%
Internal Reporting and Budgeting	0	0%	4	2%
Payroll	0	0%	3	1%
<b>Grand Total</b>	<b>166</b>		<b>227</b>	

Exhibit 28: Comparison of Total Recommendations by Topic

