



Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660 (p) 202.337.6616 (f)
www.oig.lsc.gov

May 9, 2013

Richard Austin, Esq.
Executive Director
Legal Services of the Virgin Islands, Inc.
3017 Orange Grove
Christiansted, VI 00820-4375

Dear Mr. Austin:

Enclosed is the Office of Inspector General's final report of our audit on Selected Internal Controls at Legal Services of the Virgin Islands, Inc. (LSVI). The OIG considers the actions taken by LSVI management as responsive to our recommendations. The OIG considers both recommendations closed. Your comments are shown in their entirety as an appendix to our report.

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

LEGAL SERVICES OF THE VIRGIN ISLANDS, INC

RNO 254000

Report No. AU13-05

May 2013

www.oig.lsc.gov

INTRODUCTION

In accordance with the Legal Services Corporation (LSC) Accounting Guide for LSC Recipients, August 2010 (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 ... concerns" such as defalcations and meeting the complete financial information needs of its management.

OBJECTIVE

The overall audit objective was to assess the adequacy of selected internal controls in place at Legal Services of the Virgin Islands, Inc. (grantee or LSVI) 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 objective, controls over disbursements, fixed assets, cost allocation, contracting, internal management reporting and budgeting, derivative income, and employee benefits and reimbursements were reviewed. To obtain an understanding of the internal controls over these areas, grantee policies and procedures were reviewed, including any manuals, guidelines, memoranda, and directives setting forth current grantee policies. Grantee officials were interviewed to obtain an understanding of the internal control framework, and grantee management and staff were interviewed as to their knowledge and understanding of the processes in place. Computer-generated data provided by the grantee was relied on to determine whether entries recorded in

computer systems matched the information contained on the source documents. However, the Office of Inspector General (OIG) did not test the general or application controls over the computer system. Fieldwork was conducted at the grantee's main office in St. Croix, U.S. Virgin Islands (USVI).

LSC provided \$305,511 in funding to Legal Services of the Virgin Islands for 2012. This represents about 20 percent of the total funding of \$1,533,148 received from all sources for LSVI in 2012. To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. The sample of 83 transactions totaling \$172,218.93 represented 5.2 percent of the over \$3.3 million the grantee received during the two year period of January 1, 2011, through December 31, 2012. Of the \$172,218.93 tested, \$37,646.21 was charged to LSC. To assess the appropriateness of grantee expenditures, we reviewed invoices, vendor lists, and general ledger details. The appropriateness of grantee expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

To review internal controls over internal management reporting and budgeting, the grantee's system and processes were compared to those detailed in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the Accounting Guide.

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

The on-site fieldwork was conducted from January 28 through February 1, 2013. Documents reviewed pertained to the period January 1, 2011 through December 31, 2012. Our work was conducted at the grantee's office in St. Croix, USVI and at LSC Headquarters in Washington, DC.

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 the evidence obtained provides a reasonable basis for the findings and conclusions based on audit objectives.

OVERALL EVALUATION

Generally, internal controls reviewed at Legal Services of the Virgin Islands, Inc. were adequate as the controls related to specific grantee operations and oversight, including program expenditures, and fiscal accountability. However, some policies and procedures needed to be better documented or formalized. The grantee's

disbursements that the OIG tested generally were adequately supported, allowable, and properly allocated to LSC.

Specifically, we noted that LSVI needed to update parts of the accounting manual to be consistent with the Accounting Guide for LSC Recipients (2010 Edition). Areas such as physical inventory and contracting needed to be better defined and documented in the accounting manual.

AUDIT FINDINGS

The LSVI Accounting Manual Needs to be Updated

During our visit, we found that the LSVI Accounting manual needed to be updated in some areas. Specifically, the accounting manual needed to address or be updated in the areas of physical inventory and consulting and service contracts. As a condition of the grant, grantees are required to adopt accounting policies and procedures that meet the requirements contained in LSC's Accounting Guide. The grantee must modify those policies and procedures as necessary when the Accounting Guide is amended or a new Accounting Guide is issued.

Inventory. Documentation to detail the bi-annual taking of physical inventory was not available or not done. The LSC's Accounting Guide requires that a physical inventory be documented. Because local procedures did not explicitly require documenting the process and results of the inventory, the current CFO did not have records to show what had been done prior to his arrival at the program. Procedures required that any adjustments be made to the inventory cards. If no adjustments are needed, there would be no evidence that an inventory was done. Without a record of the inventory conducted, accuracy of records may be compromised and historical information may not reflect current inventory on-hand.

The last inventory taken at LSVI's St. Croix office was in 2010. The last inventory taken at LSVI's St. Thomas office was believed to be in 2008. The LSC Accounting Guide requires that an inventory of accountable property be taken at least every two years. The prior CFO did not conduct bi-annual inventories as required by the accounting manual. The taking of inventory is an internal control that helps to prevent the loss of equipment and to identify potential losses in a timely manner. Without bi-annual inventories, LSVI managers may not identify losses in a timely manner.

Consulting and Service Contracts Policy and Procedures. The LSVI does not have specific policies and procedures to address the use of consultants or contracts. The LSC Accounting Guide requires that grantees have policies that address contracts and consultants. Without proper policies and procedures, grantees may overpay for contracted goods and services and may not receive the best value for the funds expended.

Prior to our visit, the LSVI accounting manual had not been updated in several years. While minor changes were made prior to our visit, several areas are still in need of revision and updating. The ED agreed that the manual needed to be reviewed and updated to make it consistent with the LSC Accounting Guide.

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.

Recommendations. The Executive Director should:

Recommendation 1: Update LSVI's accounting manual to be consistent with the requirements contained LSC's Accounting Guide, especially in the areas of inventory control and contracting.

Recommendation 2: Once LSVI's accounting manual is updated, ensure that all revised policies and procedures are properly implemented.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management agreed with all the findings and recommendations contained in the report. Grantee management took immediate corrective actions to implement the recommendations and provided a revised and updated Accounting Manual. A copy of their response is included as an appendix to this report.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

Grantee management comments were responsive to all of our findings and recommendations. The actions taken by grantee management to revise and update their accounting manual met the intent of the recommendations. The OIG considers these recommendations closed.



LEGAL SERVICES OF THE VIRGIN ISLANDS, INC.

COMMUNITY LAW CENTER

No. 1832 Kongens Gade
Charlotte Amalie, St. Thomas
U.S. Virgin Islands 00802
(340) 774-6720
Fax: (340) 777-8686
Email: sttooffice@legalservicesvi.org

ADMINISTRATIVE OFFICE

No. 3017 Estate Orange Grove
Christiansted, St. Croix
U.S. Virgin Islands 00820-4375
(340) 718-2626
Fax: (340) 718-8593
Email:
richard.austin@legalservicesvi.org

PLEASE REPLY TO: ADMINISTRATIVE OFFICE

April 25, 2013

VIA EMAIL TO: rmerryman@oig.lsc.gov AND REGULAR US MAIL

Mr. Ronald Merryman
Assistant Inspector General for Audit
Office of Inspector General
Legal Services Corporation
3333K Street, NW
Washington, DC 20007-3522

RE: Response to Draft Report No. AU13-XX

Dear Mr. Merryman:

This will acknowledge the receipt of your letter dated March 27, 2013, with the enclosure of the Draft Report on Selected Internal Controls Legal Services of the Virgin Islands, Inc., RNO 254000, Report No. AU13-XX March 2013.

The Draft Report was reviewed by management and the LSVI Board of Directors at a recent meeting and I have been authorized to submit this response.

We very much appreciated the professional manner in which Ms. Maliza Ella and Mr. John Seeba conducted the on-site field audit. Mr. Anthony M. Ramirez, team leader, was also very helpful in arranging the audit.

We find the Draft Report to be very helpful and instructive. We agree with and accept the recommendations. We have revised and updated our Accounting Manual as follows: **Accounting For Capital Assets** section to include an **Inventory Control Procedure**; and **Purchasing/Procurement Procedures** section to include a **Contractual Relations Procedure**. We have enclosed copies of these revisions.

We thank you for this endeavor which has allowed us to strengthen our internal controls and accounting procedures.



LEGAL SERVICES OF THE VIRGIN ISLANDS, INC.

Mr. Ronald Merryman
April 25, 2013
Page 2.

Sincerely,

Richard Austin, Esq.



Executive Director

Enclosures

Cc: Mr. Dwayne Henry, Esq., President, LSVI Board of Directors
Mr. Kenneth Guye, CFO

ACCOUNTING FOR CAPITAL ASSETS

POLICY:

- Property acquisitions of non expendable items with a value in excess of \$5,000 each and with a useful life of more than one year will be capitalized and depreciated. Identification of funds used to purchase property.
- Property donations valued in excess of \$5,000 each and with a useful life of more than one year will be reported as unrestricted revenues, unless donor restrictions apply. If the donation is initially reported as temporarily restricted, the restriction is deemed to be prorated over the useful life of the item, i.e., in proportion to the depreciation for a comparable depreciable asset.
- Property purchases in an amount of \$10,000 or more for a single item to be acquired with LSC funds will require prior LSC approval pursuant to LSC Regulations, Section 1630.5. The Executive Director or his/her designee will request the prior approval.
- Items that are deemed to be capitalized will be recorded as an equipment acquisition (recorded as a debit) with the offsetting credit to cash. In addition, at year-end, the acquisition will be reported in Changes in Net Assets.
- For management reporting purposes, fixed asset purchases are treated as expenses during the year and closed to the appropriate fund balance as a fund transfer along with all support and expense account at year-end.
- **DEPRECIATION**
- Depreciable items will be expensed using a straight-line method as follows:
 - Computers 3 years
 - Law Library 5 years
 - Furniture and Fixtures 7 years
 - Equipments 7 years
 - Leasehold/Building Improvements Term of lease or life of improvement, Whichever is shorter?

INVENTORY CONTROL PROCEDURE

All capitalized assets, including equipment and furniture, shall be tagged by the CFO, or designee. A detailed inventory log of all tagged items shall be maintained by the CFO. The log shall include the following information with respect to each asset:

1. Date of acquisition
2. Cost
3. Description (Including color, model and serial number)

4. Location of asset
5. Depreciation method
6. Estimated useful life

A physical inventory of all capitalized assets will be taken by the CFO, or designee, every two (2) years and more often when warranted, for example, when theft is suspected or occurs, or an office is moved. Results of the inventory will be reconciled to the inventory log and financial statements and adjustments made as necessary.

- **DISPOSALS**

- Net gains or losses from the disposal of property will be reported as revenue or expense in the fund where the property was originally purchased. Gain or loss is defined as the difference between the sales proceeds and the net book value.
- Amounts required to be written off through abandonment or loss will be recognized an expense in the property fund and the equipment fund.
- When an item of non expendable property or equipment becomes unserviceable or no longer needed, it shall be disposed of by one of the following methods:

Property with a fair market value of less than \$5,000 will be donated to another Non profit corporation or sold to the highest bidder;

Property with a fair market value of more than \$5,000 will be transferred to another non-profit organization servicing the poor within our community. If another non-profit organization cannot be located for the donation, the property will be advertised and sold to the highest bidder;

If no other avenues are available, the property will be sold to an employee or to a member of his/her family. When this situation occurs all employees shall be given an opportunity to bid on the property; and if an item is unusable, it will be disposed of.

Adjustments resulting from sale, retirement and resulting from theft are reviewed and recorded by the CFO and approved by Executive Director.

For detailed instructions for the proper treatment of LSC furniture, buildings, equipment and improvements, see the LSC Property Management Guide.

PURCHASING/PROCUREMENT PROCEDURES

PROCUREMENT

Legal Services of the Virgin Islands, Inc., (LSVI) offices and staff are required to follow the procedures established herein within their delegated purchasing authority. Funds administered by LSVI are subject to Federal, territorial and internal/external audit. Therefore, purchasing procedures must be consistent with the LSC Property Acquisition and Management Manual (PAMM) when LSC funds are used, as well as federal and territorial laws and LSVI policies and procedures. LSVI uses three basic procurement processes: (1) purchase orders/check requests, (2) vendor agreements, and (3) project/bid contracts. Procurement is used in the purchase of equipment and supplies necessary for the daily operation of LSVI, including, not limited to: facsimile machines, computers and computer systems, copy/multi-function machines, video conferencing equipment and systems, office furniture and supplies and any other incidental purchases that may be necessary and proper for the orderly operation of LSVI.

The following procedures support federal guidelines dealing with procurement and apply to contracts and leased, as well as purchased items.

These procedures will be followed precisely for all procurement. In any case, selection of other than lowest bidder must always be fully justified. All transactions, whether negotiated or competitively bid and without regard to dollar value, shall be conducted in a manner so as to provide maximum open and free competition.

LSVI shall be alert to organizational conflicts of interest or non-competitive practices among contractors which may restrict or eliminate competition or otherwise restrain trade. Contractors who develop or draft specifications, requirements, statements of work and/or Requests for Proposal (RFP) for a proposed procurement shall be excluded from bidding or submitting a proposal to compete for the award of such procurement.

1. **Purchases or services \$2,500 and less:** Purchases or services not exceeding \$2,500 may be accomplished without securing competitive quotations if the prices are considered fair and reasonable. If other than the lowest bid/quote is selected, provide sufficient justification/rationale must be provided.
2. **Purchases or services over \$2,501:** On any item, whose total cost is over \$2,501 written solicitation of written bids/quotes from a minimum of three qualified sources of supply must be made. The award shall be made to the lowest responsive and responsible vendor. If other than the lowest bid/quote is selected, provide sufficient justification/rationale must be provided. Expenditure of LSC funds of \$10,000 or more requires LSC prior approval.
3. The Executive Director must approve all expenditures after reviewing the proposals and recommendations of the CFO.

CONTRACTUAL RELATIONS

LSVI may enter into written contracts in specific situations, such as those listed below:

- Leases
- Real estate
- Purchase orders
- Employment
- Insurance
- Vendors
- Consultants

Contracts for professional services must clearly define the services to be rendered. The Board of Directors must approve the contract with the independent auditing firm for the annual audit. Copies of all contractual agreements will be maintained by the accounting department for a period of seven years. Authority to sign on behalf of the organization is vested in the Executive Director. The process for entering into contracts involves the following steps: identification of needs, review of available options, comparison of costs, review of the need for competitive bids, documented justification for expenditures and record keeping of acquired property. The procedure for entering into contracts is stated herein.

LSVI has an overall system of contract administration to ensure proper oversight and management of procurement actions. LSVI is responsible for evaluating contractor performance and documenting, as appropriate, whether contractors have met the terms, conditions and specifications of the contract. This may include progress inspections, interim products, inspection of goods delivered, and other such methods that provide assurance that the goods or services purchased are being delivered within the scope of the contract.

LSVI's contract administration system must ensure that:

- All necessary funding sources are obtained prior to entering into contracts by the Executive Director
- The method of procurement is documented and records maintained for five years after final payment is made;
- All activities are carried out and costs are incurred in compliance with applicable requirements;
- Before payment is made, services performed are adequate and consistent with the contract scope of services; and
- Any necessary changes to an existing contract are made in writing and future obligations are adjusted to reflect the new contract.

PROCEDURES

CFO identify the items, supplies, equipment or service needed through a purchase requisition form. (See Purchase Order Request Form LSVI 221 and Supply Requisition Form LSVI 217) Supplies are stored in a storage which is reasonable protected from theft, deterioration and damage.

- A "purchase requisition" accurately describing the needed items in terms of specification, quantity and delivery requirements and vendor's address is prepared by the Branch Office.
- A completed purchase requisition is forwarded by e-mail to the Executive Director for approval, based upon the budget. The CFO uses the supplies requisition to determine whether the funds are available for the purchase.
- Once the purchase requisition is approved by the CFO, the acquisition is then submitted to the Managing Attorney and Executive Director for approval. Once approved by the Executive Director, the LSS proceeds to purchase the supplies from the approved vendors. Pre-approved vendors are used for recurring purchases. Pre approval is also needed for online and telephone purchases.
- The goods are checked by a LSS against the Purchase Requisition and invoice to assure that the shipment is accurate.
- The Accounting Department matches the purchase requisition and invoice to the PO and the receiving documents. Actual quantities received are recorded.
- The invoice is the seller's statement of what has been shipped to the buyer and the payment the seller expects. The invoice is checked against the original purchase order in terms of quantity and price. The invoice is entered into accounts payables, along with proper documentation and paid.

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Date: _____

From: _____

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