



**Inspector General**  
Jeffrey E. Schanz

March 30, 2009

Ms. Marcia K. Cypen  
Executive Director  
Legal Services of Greater Miami, Inc.  
3000 Biscayne Boulevard  
Miami, FL 33137-4129

Dear Ms. Cypen:

Enclosed is our final report on the Office of Inspector General (OIG) audit of Selected Internal Controls at Legal Services of Greater Miami, Inc. Your corrective actions are responsive to the issues identified in the report. All findings and recommendations are considered closed. Your comments on the draft report are included as Appendix I.

At your request, a statement was added to the Background section of the final report noting that Legal Services of Greater Miami, Inc. was not one of the grantees reviewed by GAO in 2007.

We want to thank you and your staff for the cooperation and assistance you provided to us.

Sincerely,



Jeffrey E. Schanz  
Inspector General

Enclosure

cc: Legal Services Corporation  
Karen Sarjeant, Vice President  
Programs and Compliance

**LEGAL SERVICES CORPORATION  
OFFICE OF INSPECTOR GENERAL**



**REPORT ON SELECTED INTERNAL  
CONTROLS**

**LEGAL SERVICES OF GREATER MIAMI, INC.  
RNO 610040**

Report No. AU09-04

March 2009  
[www.oig.lsc.gov](http://www.oig.lsc.gov)

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## **INTRODUCTION**

In accordance with the Legal Services Corporation (LSC) Accounting Guide for LSC Recipients (August 1997) (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 the process put in place by the grantee designed to provide reasonable assurance of achieving the following objectives:

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

The Accounting Guide further provides that each grantee must rely upon its system of internal accounting controls and procedures to adequately address concerns arising from such issues as defalcations and to meet the complete financial information needs of its management.

## **BACKGROUND**

During 2007, the Government Accountability Office (GAO) performed limited reviews of internal controls at several grantees.<sup>1</sup> At some grantee sites visited, GAO found control weaknesses including using LSC grant funds for expenditures with insufficient supporting documentation, entering into unusual contractor arrangements, purchasing alcohol, providing employee interest-free loans, making disbursements for lobbying fees and late fees, and recording derivative income incorrectly. The Office of Inspector General (OIG) performed follow up reviews at selected grantees audited by the GAO to determine whether the grantee had corrected the conditions cited in the GAO report and had put adequate controls in place to detect similar situations and prevent them from recurring. Additionally at these grantees, the OIG evaluated other selected financial and administrative areas and tested the related controls. We note that Legal Services of Greater Miami, Inc. was not one of the grantees reviewed by GAO.

## **OBJECTIVE**

The overall audit objective was to assess the adequacy of selected internal controls in place at Legal Services of Greater Miami, Inc. (grantee) as the

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<sup>1</sup> Government Accountability Office (GAO) Report (GAO-08-37) entitled *Legal Services Corporation – Improved Internal Controls Needed in Grants Management and Oversight* published on December 28, 2007.

controls related to specific grantee operations and oversight, including program expenditures, fiscal accountability, and compliance with selected LSC regulations. 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. In addition, the audit examined selected regulatory policies and grantee processes to assess whether controls were operating in a manner expected to ensure compliance with the LSC Act and the selected LSC regulations.

### **SCOPE AND METHODOLOGY**

To accomplish our objective we reviewed controls over disbursements, the client intake process, selected LSC regulations, and employee benefits and reimbursements. To obtain an understanding of the internal controls over these areas, we reviewed grantee policies and procedures, including any manuals, guidelines, memoranda, and directives setting forth current grantee practices. We interviewed grantee officials to obtain an understanding of the internal control framework and interviewed grantee management and staff as to their knowledge and understanding of the processes in place. We also interviewed the grantee's independent public accountant. We relied on computer generated data provided by the grantee to determine whether entries recorded in computer systems matched the information contained on the source documents. However, we did not test the general or application controls over the computer system. Fieldwork was conducted at the grantee's central administrative office located in Miami, Florida.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, we reviewed disbursements from a judgmentally selected sample of employee and vendor files. The sample represented 18% of the over \$1.3 million the grantee disbursed during the period January 1, 2008 through November 30, 2008 and consisted of 119 transactions totaling \$238,939. 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.

The review of controls over the intake process focused solely on the Miami office. The review included obtaining an understanding of the general intake process, including both telephone and walk-in intake procedures. The review also included examining procedures used by the grantee to document eligibility determinations and compliance with LSC requirements.

To review internal controls over compliance with specific LSC regulations, (45 CFR Parts 1604, 1610, 1612 and 1617) we examined written compliance policies and procedures, including applicable LSC mandated recordkeeping

requirements, to determine if the controls were operating in a manner to ensure compliance with the provisions of the respective LSC regulation.

To review internal controls over employee benefits and reimbursements, we examined the Collective Bargaining Agreement and written personnel policies and practices. We also judgmentally sampled employee reimbursements as part of our disbursements testing.

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

The on-site fieldwork was conducted from December 8, 2008 through December 12, 2008. Documents reviewed pertained to the period January 1, 2007 through November 30, 2008. Our work was conducted at the grantee's site and at LSC headquarters in Washington, DC.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **OVERALL EVALUATION**

Selected internal controls reviewed at Legal Services of Greater Miami (grantee) were adequate as the controls related to specific grantee operations and oversight, including program expenditures, fiscal accountability, and compliance with LSC regulations. Controls were operating in a manner expected to ensure compliance with the LSC Act and selected LSC regulations.

Grantee disbursements tested were adequately supported, allowable, and appeared to be properly allocated to LSC.

Controls over the general intake process were adequate. General intake was conducted through a standardized process involving documented program intake and case acceptance procedures; the use of an electronic case management system; and trained, knowledgeable and experienced staff.

Internal controls over compliance with specific LSC regulations, (45 CFR Parts 1604, 1610, 1612 and 1617) were adequate. Written compliance policies and procedures, including applicable recordkeeping requirements, complied with the respective LSC regulation. No exceptions were noted. In addition, derivative income was received by the grantee in accordance with LSC regulations and accurately accounted for.

Our review of the internal controls over employee benefits and reimbursements revealed that the controls were generally adequate. Policies over employee benefits practices were generally in writing and adhered to. However, three areas were noted where internal controls could be strengthened. These areas were policies governing: (a) advance pay for employees not covered by the grantee's Collective Bargaining Agreement; (b) the use of grantee issued cell phones; and (c) the procedures for securing services either through consultant contracting or the use of temporary staff.

## **AUDIT FINDINGS**

### **EMPLOYEE BENEFITS AND REIMBURSEMENTS**

- **Salary Advance Policy for Non-Union Staff**

Although grantee management stated that the practice was to allow advanced pay to non-union staff, a written policy was not in place governing such arrangements. A review of the general ledger revealed that some non-union managerial staff had received advance pay during the period of review. While the Collective Bargaining Agreement governs advance pay for union members, such as attorneys and support staff, the Agreement does not include employees in management or other non-union employees.

It is the grantee's practice to follow the process laid out in the Collective Bargaining Agreement for both union and non-union employees. According to the grantee, the advance pay policy is that a union or non-union employee is entitled to two emergency pay advances and two vacation pay advances per year. All employees use the same pay advance request form. However, we noted an exception to this practice for one non-union employee in 2008. The exception to the stated policy involved a member of management who was issued three emergency pay advances and one vacation pay advance.

The Executive Director explained that not including the applicable provision from the Collective Bargaining Agreement in the grantee written personnel policies was an oversight.

LSC management has issued guidance to grantees regarding pay advances. While not prohibiting salary advances to employees, the guidance notes the

importance of written policies and procedures governing such advances including timely repayments.<sup>2</sup> In addition to strengthening internal controls, having written procedures help ensure that all employees are treated fairly and help reduce the potential for disparate treatment complaints.

Recommendation 1 The Executive Director should incorporate the advance pay provision from the Collective Bargaining Agreement into the grantee written personnel policies for management and other non-union employees.

- Cell Phone Use Policy

A written policy was not in place governing the use of grantee issued cell phones. Although only the Executive Director and Building Administrator possessed cell phones issued by the grantee, there were no policies or procedures governing the use of such devices by any grantee staff.

As electronic devices become more and more a necessity in conducting business, establishing adequate internal controls, such as policies and procedures, helps safeguard assets against unauthorized use or disposition.

Recommendation 2 The Executive Director should formulate policies and procedures for the use of cell phones and any other wireless devices and incorporate such policies and procedures into the grantee's Finance Manual.

- Procedures Governing Contracts for Services

To supplement the work of its staff, the grantee utilizes the services of temporary staffing agencies and occasionally contracts with an outside consultant.

The grantee utilizes the services of temporary staffing agencies to fill support staff positions. As to the hiring of temporary staff, a routine office practice has been in place. The grantee's Finance Manual documents a policy authorizing the use of the services of temporary staffing agencies but does not describe the specific procedures to be followed in filling temporary staff positions.

Additionally, the grantee does not have a formal written policy governing the administration of consulting contracts. Even though according to the grantee, it uses very few outside consultants, establishing formal written policies helps strengthen controls over contracting and helps ensure that funds are properly controlled.

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<sup>2</sup> Advisory from the President, Legal Services Corporation, to all LSC Executive Directors regarding "Fiscal Management and Use of LSC Funds" (March 20, 2008)

Recommendation 3 The Executive Director should incorporate existing procedures over the hiring process of temporary staff into the grantee's Finance Manual and develop formal written procedures governing consultant contracting.

### **SUMMARY OF GRANTEE MANAGEMENT COMMENTS**

Grantee management has stated that the policies recommended relating to each of the three findings have been adopted. The full text of grantee management comments is at Appendix I.

### **OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS**

Grantee management comments are responsive to the recommendations contained in this report. The OIG considers all recommendations closed.



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March 13, 2009

Ronald D. Merryman  
Assistant Inspector General for Audit  
3333 K Street, NW 3<sup>rd</sup> Floor  
Washington, DC 20007-3522

Dear Mr. Merryman:

This will respond to the Draft Office of Inspector General Report on Selected Internal Controls.

1. Background (Page 1):

We request that the final report note that Legal Services of Greater Miami (LSGMI) was not one of the grantees where OIG performed reviews during 2007 and found control weaknesses.

2. Recommendation 1 (Page 5):

LSGMI has adopted a policy as recommended.

3. Recommendation 2 (Page 5):

LSGMI has adopted a policy as recommended.

4. Recommendation 3 (Page 5):

LSGMI has adopted policies as recommended.

Sincerely yours,

Marcia K. Cypen  
Executive Director

