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

September 30, 2013

Mr. Steven Dickinson
Executive Director
Central Virginia Legal Aid Society, Inc.
101 West Broad Street, Suite 101
P.O. Box 12206
Richmond, VA 23241

Dear Mr. Dickinson:

Enclosed is the Office of Inspector General's (OIG) final report of our audit on Selected Internal Controls at Central Virginia Legal Aid Society, Inc. (CVLAS). The OIG has reviewed your comments on the draft report findings and recommendations and has determined that the actions CVLAS has planned are responsive to the recommendations. All 18 recommendations will remain open until the OIG has been notified in writing that the new Accounting Manual has been approved by the Board of Directors and all meetings and training to discuss adherence with accounting policies and procedures has been completed with CVLAS staff. The OIG is referring $909.42 in questioned costs to LSC Management for their determination. These costs involved expenditures of LSC funds that were identified as unallowable, unsupported, or not approved.

The full text of your comments is included in the report as Appendix II.

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

FINAL REPORT ON SELECTED INTERNAL CONTROLS

CENTRAL VIRGINIA LEGAL AID SOCIETY, INC.

RNO 447030

Report No. AU 13-07

September 2013

www.oig.lsc.gov

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Central Virginia Legal Aid Society, Inc. (CVLAS or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's main office in Richmond, Virginia and at LSC headquarters in Washington, DC.

In accordance with the Legal Services Corporation Accounting Guide for LSC Recipients (2010 Edition) (Accounting Guide), Chapter 3, an LSC grantee "...is required to establish and maintain adequate accounting records and internal control procedures." The Accounting Guide defines internal control as follows:

> [T]he process put in place, managed and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:
>
> 1. safeguarding of assets against unauthorized use or disposition;
> 2. reliability of financial information and reporting; and
> 3. compliance with regulations and laws that have a direct and material effect on the program.

Chapter 3 of the Accounting Guide further provides that each grantee "must rely ... upon its own system of internal accounting controls and procedures to address these concerns" such as preventing defalcations and meeting the complete financial information needs of its management.

BACKGROUND

According to its website, CVLAS began in 1971 with the combination of Neighborhood Legal Aid Society and Metropolitan Richmond Legal Aid Society. CVLAS houses the Virginia Farm Workers Legal Assistance Project in Charlottesville. As stated on its website, CVLAS provides, without charge, legal representation in civil cases and preventive community education to low income and elderly clients.

According to the audited financial statements for the grantee's fiscal year (FY) ended December 31, 2011, the grantee is primarily funded through grants from LSC and the Legal Services Corporation of Virginia (LSCV). The grantee received $1,284,522 from LSC and $760,932 from the state (LSCV). In addition, the grantee received funding in the amount of $400,279 from various state, local, and private sources such as the United Way of Greater Richmond, the City of Richmond, the Capital Area Agency on Aging, and other private contributors.

OBJECTIVE

The overall objective was to assess the adequacy of selected internal controls in place at the grantee 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.

OVERALL EVALUATION

While many of CVLAS' controls were adequately designed and properly implemented as the controls related to specific grantee operations and oversight, some controls need to be strengthened and formalized in writing. Internal controls over client trust funds were adequately designed; however, the grantee needs to place more emphasis on establishing and documenting internal controls in many of the other areas reviewed.

The grantee's current practices involving internal management reporting and budgeting, soliciting and awarding contracts, and controlling wireless phones were generally in accordance with the LSC's *Fundamental Criteria*. However, policies and procedures in these three areas need to be fully documented.

Grantee disbursements tested were generally adequately supported and allowable. However, we found some issues that need management attention, such as six disbursements we noted that were unsupported, unallowable or unapproved. Two instances were noted where the grantee used LSC funds to buy flowers and to donate funds in lieu of flowers to bereaved employees upon their loss of a family member. Two instances were noted where credit card expenses did not have supporting documentation. Two instances were noted where office supply purchases did not have purchase orders as required by the grantee's policy.

We also noted other areas where internal controls could be strengthened. The following areas lacked written policies and procedures and needed improvement because of inadequate:

- oversight of credit cards,
- practices over recording of derivative income,
- cost allocation practices, and
- fixed assets policies including an inadequate physical inventory practice.

In addition, job descriptions for all accounting staff needed to be updated to reflect the current staffing situations and job responsibilities.

Our tests confirmed that the amounts of salary advances requested by employees were adequately approved and did not exceed the net amount of 2 weeks' pay as stipulated in the policies contained in the grantee's Manual of Financial Procedures. Our tests also confirmed from accounting records that the amounts deducted towards the repayment of the salary advances were accurate.

AUDIT FINDINGS

WRITTEN POLICIES AND PROCEDURES

Operating practices for some areas reviewed were not documented in the grantee's Manual of Financial Procedures in accordance with the *Fundamental Criteria* contained in the LSC Accounting Guide. The Manual of Financial Procedures documents the policies and procedures to be followed by CVLAS staff in meeting the objectives and criteria of LSC and its other funding sources. Though not documented, the grantee's current practices involving internal management reporting and budgeting, soliciting and awarding contracts and use of wireless phones generally conformed to the *Fundamental Criteria*.

Budgeting involved top management and the budget was created annually based on funding sources and expense limitations inherent to the grants. The expenses were projected based on prior year expenditures. Monthly income reports were prepared and used to create quarterly budgets versus actual analyses.

CVLAS entered into contracts with vendors when appropriate. The awards were subject to competition and the grantee entered into formal contracting agreements.

Wireless phones were accounted for through the inventory listing and were in the custody of the Director of the Farmworker Program. The Director assigns the phones to the attorneys doing outreach and verbally communicates the phone use policy to the staff. The staff is informed that the phone is only for business purposes.

The Manual of Financial Procedures did not detail the policies and procedures relating to internal management reporting and budgeting, awarding of contracts and consulting agreements, and the use of wireless phones.

The Manual of Financial Procedures also did not include policies and procedures relating to grantee credit card use. The grantee stated that the credit card policies were verbally announced to the employees and that a practice was in place.

CVLAS's management stated the Executive Director was new to the position and that the existing Manual of Financial Procedures was in place when he started. The Executive Director stated that he realizes the Manual of Financial Procedures needs improvement and he has begun the process of updating the manual. However, at the time of the on-site fieldwork, the updated (draft) Manual of Financial Procedures was not complete and had not been disseminated to the staff. The Executive Director stated that he was waiting for the OIG report to see what other areas needed improvement prior to completion and presentation to the CVLAS Board of Directors (Board) for approval.

To maintain an adequate internal control structure, each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria* contained in the LSC Accounting Guide, which requires that financial controls be established to safeguard program resources. Without adequate written policies and procedures in place, transactions may be initiated and recorded that violate management intentions, or possibly laws or grant restrictions. Written policies and procedures also serve as a method to document the design of controls and communicate the controls to the staff.

Recommendations. The Executive Director should develop written policies and procedures to:

Recommendation 1. document the management reporting and budgeting process.

Recommendation 2. document the process of soliciting and awarding contracts.

Recommendation 3. govern the use of wireless phones.

Recommendation 4. govern the use of credit cards.

CREDIT CARD USE

Credit card procedures described were not always followed. The grantee's practice as described was adequate; however oversight over credit card use could be improved.

According to the grantee, when a purchasing need was identified, the individual approached a credit card holder, who evaluated the need and appropriateness of the transaction. The credit card holder personally made the purchase using the assigned credit card. Credit card holders received monthly statements, reviewed transactions under their respective accounts, and forwarded supporting documentation for transactions to the central office for final review and payment.

However, we noted that in one branch office the credit card use practice was contrary to what had been described. The Charlottesville branch office Director for Virginia Farmworkers Program maintains physical possession and uses a CVLAS credit card issued to the Senior Managing Attorney. According to the Director for Virginia Farmworkers Program, the credit card is also used by a member of her staff (Migrant Outreach Worker), as well as other individuals in the Charlottesville branch office.

As noted previously, the authorized credit card holder does not always personally make purchases. The Director for Virginia Farmworkers Program reviews transactions on the monthly statement and forwards supporting documentation for transactions to the central office for final review and payment. Use of the credit card by individuals not assigned to the card could lead to improper or inappropriate transactions.

Our disbursement test disclosed that some receipts for credit purchases were missing. The disbursement sample included seven disbursements for credit card statements totaling $2,725.95. From the credit card statements reviewed, two transactions totaling $129.61 did not have receipts. The charges were for hotel ($85.09) and gas for the rental car ($44.52). The grantee's policy requires that receipts be attached to travel vouchers for reimbursements. The Fiscal Manager stated that the missing credit card receipts had been misplaced by the Charlottesville branch office employee who incurred the expenses.

Recommendation 5. The Executive Director should ensure that credit card holders fully comply with established office policies when making credit card purchases.

DERIVATIVE INCOME

The LSC Accounting Guide, Chapter 2, paragraph 2-2.7, defines derivative income as follows.

> ...any additional income derived from an LSC grant, such as interest income, rent or the like, or that portion of any reimbursement or recovery of direct payments to attorneys, proceeds from the sale of assets, or other compensation or income attributable to any Corporation grant.

Our review disclosed that there were no written policies on how to account for and allocate rental income and attorneys' fees. While rental income was being allocated correctly, attorneys' fees allocation practices were not in compliance with LSC regulations. Derivative income in the amount of $6,888.71 was received in attorneys' fees by CVLAS for FY 2012. CVLAS recorded the amounts as income and coded it as attorneys' fees. According to the grantee, the attorneys' fees were to be allocated at the end of the year during the cost allocation process to all grantors based on percentage of income received from each grant.

LSC Regulation 45 CFR §1609.4 (a) states:

> Attorneys' fees received by a recipient for representation 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 representation.

According to the CVLAS Fiscal Manager, she was not aware of the LSC requirements relating to the accounting for attorney's fees which provides that funds received shall be allocated to the fund in the same proportion that the grant funds expended bears to the total amount expended by the grantee to support the representation. Although the Fiscal Manager stated that the attorneys' hours spent on the case were tracked through the time keeping system, the hours were not used for allocating attorneys' fees.

Properly recording derivative income ensures that the LSC grant is apportioned its fair share of income to be used for LSC eligible clients.

Recommendations. The Executive Director should:

Recommendation 6. formalize in writing policies and procedures for recording and allocating derivative income.

Recommendation 7. ensure that CVLAS personnel fully implement the requirements of LSC Regulation 45 CFR § 1609.4(a) related to the recording of income derived from attorneys' fees.

COST ALLOCATION

The cost allocation process needs to be performed more frequently and timely. The grantee provided us with cost allocation schedules for 2011. For 2011, the cost allocation was performed in June and December 2011. As of the conclusion of our site visit, March 26 2013, CVLAS had not yet performed the cost allocation for 2012 expenses.

While grantee management verbally described cost allocation procedures, documented policies and procedures relating to cost allocation were not adequate. The written procedures need to be revised to have sufficient details that explain how costs are allocated between funding sources in order to conform to the LSC Accounting Guide. Written procedures ensure proper design of controls to allow management to demonstrate the total cost of the activity that the funding sources are financing. Written procedures also serve as a method to communicate these controls to staff.

We reviewed entries on a spreadsheet, prepared by the Fiscal Manager, detailing the cost allocation process. Direct expenses are allocated based on the actual time CVLAS attorneys and paralegals report on cases. The expenses on the spreadsheet that are coded to the general account are allocated to LSC and other grants that handle LSC eligible cases. The allocation is by percentage of total funding. We recalculated the cost allocation amounts for 2011 against the information provided by the grantee and concluded that the cost allocation process as described was adequate. The grantee stated that the cost allocation for 2011 was done on a semi-annual basis. Performing cost allocations only twice a year may not be sufficient to provide current financial information to make fund use decisions or inform the Board of fund expenditures.

Furthermore, the cost allocation for 2012 had not yet been performed by the grantee as of March 26, 2013. The grantee explained that they had not performed the cost allocation for 2012 due to transitioning to a new accounting system. The grantee was transitioning from Sage Business Works to QuickBooks and was moving existing accounts from one system to the other. The grantee had initially stated that with QuickBooks the plan was to begin allocating costs on a monthly basis effective September 2012, but this had not been done at the time we concluded audit fieldwork in March 2013. As a result, we do not know whether the cost allocation process and procedures for 2012 are the same as they were for 2011.

Recommendations. The Executive Director should:

> Recommendation 8. update CVLAS's Manual of Financial Procedures by preparing written policies and procedures that document current cost allocation practices in use and include all processes required by the LSC Accounting Guide.
>
> Recommendation 9. ensure that the cost allocation process is performed frequently enough to provide meaningful financial information to grantee management, the Board of Directors, and funders.

FIXED ASSETS

The grantee's written policies over fixed assets need to be revised. To assist in developing an adequate internal control structure over program assets, LSC's *Fundamental Criteria* sets out specific areas that need to be addressed by each grantee. Our review of CVLAS' Manual of Financial Procedures disclosed that policies and procedures were not established to adequately address conducting physical inventories, capitalizing and depreciating assets, maintaining and repairing assets, valuing contributed property, and monitoring donor restrictions on collections.

As a result of the lack of adequate written procedures, inventories conducted by the grantee did not provide assurance that all assets were properly safeguarded and vehicles owned by the grantee may not have been properly managed.

Physical Inventories

Physical inventories were not conducted by disinterested officials. Rather inventories were essentially conducted by the employee who had custody of the asset. Employees were provided inventory lists annually and were responsible for verifying the existence and the condition of the assets assigned to them. Employees would indicate whether an asset was on hand or missing, in need of repair, replaced, or moved to a different location. The employee would then provide the list to a designated person. The designated person was responsible for updating the Master Inventory List. However, the results were not reconciled to the accounting records. The grantee stated that due to the reduced funding and the size of the grantee, there is no staff available to conduct independent physical inventory count.

Vehicle Management

The grantee owned two vehicles used by the Farm Workers Program in the Charlottesville branch office. However, the Manual of Financial Procedures and the Personnel Manual in place during the audit period did not contain any written policies and procedures governing the use of these vehicles. Specific items not documented included policies and procedures regarding authorized users, use and maintenance of the vehicle, documenting the purpose of trip, and maintaining mileage logs by users.

Properly designing and implementing fixed assets policies and procedures help ensure assets are adequately safeguarded against loss, theft, or misuse and financial statements accurately reflect the value of assets on hand. In addition, documented policies and procedures over vehicles help ensure that vehicles are only used for authorized purposes and in compliance with Internal Revenue Service (IRS) rules and regulations.

Recommendations. The Executive Director should develop written policies and procedures:

> Recommendation 10. to control physical inventory to include reconciliation to accounting records.
>
> Recommendation 11. to document the following areas: asset capitalization, depreciation, maintenance and cost repair, valuation of contributed property and monitoring donor restrictions on collections.
>
> Recommendation 12. to govern the use of CVLAS owned vehicles and to ensure that the use of the vehicles is in accordance with IRS rules and regulations.

Recommendation 13: The Executive Director should develop compensating inventory procedures if grantee staff is not available to conduct a full and independent inventory. Some compensating procedures could be to independently inventory high value and sensitive assets or recruit volunteers to conduct the physical inventory.

DISBURSEMENTS

Except for unallowable costs, written policies and procedures were in accordance with LSC's *Fundamental Criteria*. In general, most disbursements were properly approved and adequately documented. However, disbursement procedures were not followed in some instances. As a result of our testing, we noted six disbursements, totaling $909, that were unallowable, unsupported, or not approved. Ensuring costs are allowed, maintaining adequate supporting documentation and obtaining proper approval for disbursements helps ensure that funds are only used for authorized purposes.

LSC Regulation 45 CFR Part 1630, Costs Standards and Procedures, among other requirements, provides that expenditures by a grantee be reasonable and necessary for the performance of the grant or contract and adequately documented. The *Fundamental Criteria* in the Accounting Guide (chap. 3-5.4(a), pg. 33), requires that approval be at an appropriate level of management before a commitment of resources is made. Chapter 3-5.7, pg. 41, of the *Fundamental Criteria* also states that disbursements require adequate documentation supporting the reason for each disbursement contained in the files. Additionally, the CVLAS Manual of Financial Procedures, pg. 22, requires that all office supply purchases be approved through a purchase order.

Unallowable costs

Two instances, totaling $241.20, were noted where the grantee used LSC funds to purchase flowers and to donate funds in lieu of flowers to bereaved employees upon their loss of a family member. According to the Fiscal Manager, the grantee was not aware that flower purchases were unallowable purchases.

Unsupported costs

Two instances, totaling $129.61, were noted where credit card expenses did not have supporting documentation. The grantee's Manual of Financial Procedures states that there must be prior approval with supporting documentation for any expenditure authorized by CVLAS. The LSC Accounting Guide also provides that disbursements require documentation supporting the reason for each disbursement, which must be contained in the files. The Fiscal Manager stated that the missing credit receipts had been misplaced by the attorney in the Charlottesville office who incurred the expenses.

Unapproved costs

Two instances, totaling $538.61, were noted where office supply purchases did not have purchase orders as required by the grantee's policy. The grantee's Manual of Financial Procedures states that a pre-numbered purchase order system is used for all purchases (except miscellaneous purchases of less than $20.00). The Fiscal Manager stated that the missing purchase orders were an oversight on her part. Because the six disbursements identified are not properly supported within the meaning of 45 CFR §1630.2, the OIG is questioning $909.42, the total value of the six disbursements. The OIG will refer the questioned costs to LSC management for review and action.

Recommendations. The Executive Director should ensure that:

Recommendation 14. LSC funds are not used to purchase flowers or to donate funds in lieu of flowers.

Recommendation 15. written policies and procedures are developed to prohibit the use of LSC funds for unallowable expenses including, but not limited to, the purchase of flowers, donations in lieu of flowers, holiday parties, alcohol purchases, late fees or finance charges. These policies should be briefed to all grantee staff, emphasizing that LSC's funds are to be used for business purposes only.

Recommendation 16. procedures are enforced that require disbursements to be accompanied by supporting documentation before payment.

Recommendation 17. all employees adhere to the policies and procedures regarding adequate approval for all purchases.

JOB DESCRIPTIONS

The Executive Director stated that the job descriptions of its Finance personnel were outdated and did not reflect the current positions. He also explained that based on budget cuts, the grantee's Board restructured two finance positions into one position. The two finance positions restructured were the Fiscal Manager and Director of Operations, which were replaced by a new position, Program Administrator. A job description was provided for this new position which appeared adequate. However, no other Finance staff's job descriptions were updated.

The Accounting Guide requires that the duties and responsibilities of all grantee personnel be detailed in written job descriptions so that financial duties and responsibilities are achieved. Position descriptions are an important internal control where specific duties, reporting relationships and constraints can be clearly delineated. Position descriptions also help provide a basis for hiring, evaluating and promoting staff.

Recommendation 18. The Executive Director should ensure that all Finance staff members have current job descriptions that accurately reflect their responsibilities.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management agreed in principle with all the findings and recommendations contained in the report. Grantee management submitted an updated draft Accounting Manual incorporating many of the OIG's recommendations. The Program's Board of Directors will vote on adopting the updated manual at the next Board meeting. Recommendations regarding enforcement of policies and procedures by Program managers are ongoing. One recommendation regarding the development of job descriptions is in process. A copy of Management's response is included as an appendix to this report.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers management comment's responsive to the findings and recommendations contained in the report. The actions planned by grantee management to revise and update the program's Accounting Manual as well as conduct meetings and training sessions with staff should correct the issues identified in the report. The OIG considers all 18 recommendations open until the grantee's Accounting Manual has been approved by its Board of Directors and all meetings and training to discuss adherence with accounting policies and procedures has been completed with CVLAS staff.

APPENDIX I

SCOPE AND METHODOLOGY

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

- Cash disbursements
- Contracting
- Credit cards
- Property and Equipment
- Internal Management Reporting and Budgeting
- Salary Advances, and
- Cost Allocation.

In addition we reviewed controls over derivative income and client trust fund accounting. Controls over derivative income were reviewed to determine whether income was properly recorded and allocated. Controls over client trust fund accounting were reviewed, but not tested.

To obtain an understanding of the internal controls over the areas reviewed, grantee policies and procedures were reviewed, including manuals, guidelines, memoranda, and directives, setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework, and management and staff were interviewed as to their knowledge and understanding of the processes in place. To review and evaluate internal controls, the grantee's internal control system and processes were compared to the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. This review was limited in scope and was not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations.

We assessed the reliability of computer generated data provided by the grantee by reviewing source documentation for the entries selected for review. We determined that the data were sufficiently reliable for the purposes of this report.

To test 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 was taken from the period January 1, 2011 through August 30, 2012, and represented approximately 10% of the $936,375.14 disbursed for expenses other than payroll and consisted of 82 transactions totaling $94,502.27. To assess the appropriateness of expenditures, we reviewed invoices, vendor lists, and traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

To evaluate and test internal controls over the contracting process, credit card use, internal management reporting and budgeting, and property and equipment, we interviewed appropriate program personnel, examined related policies and procedures, and selected specific transactions to review for adequacy.

Controls over salary advances were reviewed by examining the personnel policies and practices, and by testing a judgmentally selected sample of employee reimbursements as part of the disbursements testing. To assess the salary advance process, we reviewed salary advance requests for appropriate approvals and verified that the amounts requested did not exceed the net amount of 2 weeks' pay as stipulated in the policies contained in the grantee's Manual of Financial Procedures. We also reviewed accounting records showing the amount paid in advance and individual pay statements showing the amounts deducted towards the repayment of the salary advance.

To evaluate the adequacy of the cost allocation process, we discussed the cost allocation process for 2011 with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We recalculated the cost allocation amounts for 2011 using the information provided by the grantee.

Controls over derivative income were reviewed by examining current grantee practices and reviewing the written policies contained in the grantee's Manual of Financial Procedures. To evaluate controls over client trust fund accounting, we interviewed appropriate program personnel and examined related policies and procedures.

The on-site fieldwork was conducted from September 10 through September 14, November 14 through November 16, 2012, and March 25 and 26, 2013. Our work was conducted at the grantee's central administrative office in Richmond, Virginia and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2011 through August 31, 2012.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

APPENDIX II

GRANTEE MANAGEMENT COMMENTS

LAW OFFICES
CENTRAL VIRGINIA LEGAL AID SOCIETY, INC.
RICHMOND OFFICE
101 WEST BROAD STREET, SUITE 101 • P.O. BOX 12206 • RICHMOND, VA 23241

(804) 648-1012
FAX: (804) 649-8794

September 26, 2013

Ronald Merryman
Assistant Inspector General for Audit
Office of Inspector General
Legal Services Corporation
Washington, DC

Mr. Merryman:

Please accept this as CVLAS' response to the draft OIG report submitted to us on August 12 , 2013.

In general, we have no disagreement with the findings or recommendations of OIG and appreciate their thorough work. We believe that implementing their recommendations will improve the accounting systems at CVLAS and bring us into closer compliance with LSC regulations.

Attached is a draft of our new Accounting Manual which incorporates many of the OIG teams' recommendations. It will be submitted to the Finance committee of our board next month and after any changes made by them, to the full board for approval in December.

A full staff meeting will also be held in December to inform staff of all the policies. The Executive Director will take responsibility to ensure that all staff are aware of the policies and share the ongoing duties with Office Managers, Program Managers, the bookkeeper and others to ensure compliance.

All staff who manage financial matters, all managers and administrators are already aware of OIG's recommendations, the OIG report and the contents of the Draft Accounting Manual.

Specifically, we took the following actions on each recommendation:

Recommendation 1. Document the management reporting and budgeting process. See changes in attached manual on pages 14 -15.

Recommendation 2. Document the process of soliciting and awarding contracts . See changes in manual on pages 34 and 35.

Recommendation 3. Govern the use of wireless phones . See changes in manual on page 36.

Recommendation 4. Govern the use of credit cards . See changes in manual on page 37.

Recommendation 5. The Executive Director should ensure that credit card holders fully comply with established office policies when making credit card purchases. Ongoing

Recommendation 6. Formalize in writing policies and procedures for recording and allocating derivative income. See changes in attached manual on page 31.

Recommendation 7. Ensure that CVLAS personnel fully implement the requirements of LSC Regulation 45 CFR § 1609.4(a) related to the recording of income derived from attorneys ' fees. Ongoing

Recommendation 8. Update CVLAS's Manual of Financial Procedures by preparing written policies and procedures that document current cost allocation practices in use and include all processes required by the LSC Accounting Guide. See changes in manual on 31 and throughout the document.

Recommendation 9. Ensure that the cost allocation process is performed frequently enough to provide meaningful financial information to grantee management, the Board of Directors, and funders. Cost allocation will be made as expenditures and income is received and then adjusted monthly and as needed.

Recommendation 10. To control physical inventory to include reconciliation to accounting records. See changes in manual on page 29.

Recommendation 11. To document the following areas : asset capitalization , depreciation , maintenance and cost repair, valuation of contributed property and monitoring donor restrictions on collections. See changes in manual on page 29.

Recommendation 12. To govern the use of CVLAS owned vehicles and to ensure that the use of the vehicles is in accordance with IRS rules and regulations. See changes in manual starting on page 38.

Recommendation 13: The Executive Director should develop compensating inventory procedures if grantee staff is not available to conduct a full and independent inventory. Some compensating procedures could be to independently inventory high value and sensitive assets or recruit volunteers to conduct the physical inventory. Under consideration.

Recommendation 14. LSC funds are not used to purchase flowers or to donate funds in lieu of flowers. See changes in manual on page 10.

Recommendation 15. Written policies and procedures are developed to prohibit the use of LSC funds for unallowable expenses including , but not limited to, the purchase of flowers, donations in lieu of flowers , holiday parties, alcohol purchases, late fees or finance charges . These policies should be briefed to all grantee staff, emphasizing that LSC's funds are to be used for business purposes only. See changes in manual on page 10.

Recommendation 16. Procedures are enforced that require disbursements to be accompanied by supporting documentation before payment . Ongoing.

Recommendation 17. All employees adhere to the policies and procedures regarding adequate approval for all purchases. Ongoing.

Recommendation 18. The Executive Director should ensure that all Finance staff members have current job descriptions that accurately reflect their responsibilities. See attached job description, page 39 of manual. CVLAS is in the process of drafting job descriptions for all employees and hopes to have that completed shortly.

Please do not hesitate to contact me if you have any questions regarding this response. A hard copy will follow. Thank you again for the extension and opportunity to respond to the draft report.

Very truly yours,

Steve Dickinson