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Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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June 30, 2014

Ms. Janice R. Morgan
Executive Director
Legal Services of Oregon
520 SW Sixth Avenue, Suite 1130
Portland, OR 97204

Dear Ms. Morgan:

Enclosed is the Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Legal Services of Oregon (LASO). The OIG has reviewed your comments on the findings and recommendations in the draft report. Your comments are included in the final report as Appendix II.

The OIG considers your actions responsive to Recommendations 1 and 2 and those recommendations are considered closed.

The OIG also considers your planned actions to address Recommendations 3, 4 and 5 as responsive to the findings and recommendations contained in the report. However, Recommendations 3, 4, and 5 will remain open until the OIG is notified in writing that they have been completed or implemented.

The OIG is referring $4,789.08 in questioned costs to LSC Management for their determination. These costs involve local bar dues that were allocated to LSC funds through your pooled expense account.

Also, as a result of your comments, we eliminated the Eugene branch office from the list of field offices detailed in the background section of the draft 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 AID SERVICES OF OREGON

RNO 938004

Report No. AU14-06

June 2014

www.oig.lsc.gov

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INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls at Legal Aid Services of Oregon (LASO or grantee), Portland, Oregon, related to specific grantee operations and oversight. Audit work was conducted at the grantee's main office in Portland, Oregon and at LSC headquarters in Washington, DC. The initial on-site fieldwork was conducted from January 8, 2013 to January 15, 2013. The OIG conducted a second on-site visit on November 4th to November 5th 2013. Documents reviewed pertained to the period January 1, 2011 through August 31, 2012.

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

The mission of Legal Aid Services of Oregon is to achieve justice for the low-income communities of Oregon by providing a full range of the highest quality civil legal services. With a staff of more than 80, including 46 attorneys, the grantee handles over 8,000 cases each year. Program priorities include work on domestic violence, public benefits and housing issues.

LASO provides representation on civil cases to low-income clients throughout Oregon. LASO has field offices located in Albany, Bend, Klamath Falls, Newport, Pendleton, Portland, Roseburg and Salem. Offices in Woodburn, Hillsboro and Pendleton service farmworker clients statewide. The Native American Program provides representation on Native American Issues. The Central Administrative Office for the program is located in Portland.

The grantee's funding sources for fiscal (FY) years 2011 and 2012 were as follows:

Type of Funding	FY2011	FY2012
Basic - LSC	$3,353,985	$ 2,862,298
Migrant - LSC	614,809	524,680
Native American - LSC	204,192	173,862
Non-LSC Funding	4,036,901	3,312,430

OBJECTIVE

The overall audit objective was to assess the adequacy of selected internal controls in place at LASO 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

Internal controls reviewed and tested at LASO were adequate as the controls related to specific grantee operations and oversight. Controls over program expenditures and fiscal accountability were generally adequate. Our evaluation and testing of controls in the areas of cost allocation, internal budgeting, management reporting, and property and equipment revealed that internal controls in those areas were adequate and operating as intended. Controls over salary advances were properly designed. Because no salary advances were made during the period under review, we could not test the operation of those controls.

However, the OIG determined that in years 2009, 2010 and 2011 a portion of local bar dues was incorrectly charged to LSC. In 2009, $2,850 was incorrectly charged to LSC; in 2010, $3,329.96 was erroneously charged; and finally in 2011, $2,920 was incorrectly charged, for a total of $9,099.96 over the three years. For 2012, these charges amounted to $1,580 and were reclassified by grantee management to a non-LSC funding source prior to the OIG leaving the grantee site.

In its response to the OIG draft, the grantee provided clarification with respect to the local bar dues allocation process. The grantee stated that it uses a cost allocation method that includes an expense pool for LSC-eligible expenses. Under their accounting practices, non-LSC-eligible expenses are not to be included in their pooled expense account. They acknowledge that in 2009 - 2011, they erroneously coded a non-LSC-eligible expense (local bar dues) to that pool and the amount of local bar dues paid for those 3 years totaled $9.099.96. However, the grantee explained that only a portion of the amount was allocated to LSC. As a result, based on the grantee's explanation of the amounts allocated to LSC in 2009, 2010 and 2011, the OIG questions $4,789.08.

The OIG also found that the Director of Finance was not aware of nine credit cards used by grantee staff. However, the Director of Finance stated he was aware the accounts existed because the central office received and paid the bills. These cards were Office Depot and Staples credit cards used to procure office supplies by the grantee's various offices. The nine cards had credit limits ranging from $1,800 to $20,000. The cards were not given out in accordance with LASO's credit card policy. As such, no records were on file documenting the approved issuance of the cards. With regard to contracting, the grantee awarded three sole source contracts totaling $87,005 without documenting a written justification for the sole source award. In addition, the OIG found the grantee's current practices for central office purchasing and derivative income were not documented in the grantee's accounting manual.

AUDIT FINDINGS

DISBURSEMENTS

In general, disbursements were properly approved and adequately documented. Written policies and procedures were in accordance with the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. However, these procedures were not followed in two instances.

The OIG found the following:

Local Bar Dues

In FY 2009, 2010 and 2011, the grantee erroneously charged $2,850, $3,329.96 and $2,920 in local bar dues respectively to LSC, totaling $9,099.96. These costs were initially recorded to a pooled expense account and then a portion of that cost allocated to LSC in accordance with the grantee's cost allocation methodology. Subsequent to the issuance of the draft report, the grantee provided clarification on its process for allocating local bar dues. The grantee stated that they use a cost allocation method that includes an expense pool for LSC-eligible expenses. Under their accounting practices, non-LSC-eligible expenses are not to be included in their pooled expense account. They acknowledged that they erroneously coded local bar dues to the pooled account totaling $9,099.96, however, only a portion of that amount was allocated to LSC. Consequently, as detailed by the grantee, the portion allocated to LSC was only $4,789.08.

According to LSC regulation 45 CFR 1627.4, LSC funds may not be used to pay membership fees or dues to any private or nonprofit organization, whether on behalf of a grantee or an individual. Therefore, the OIG is questioning the $4,789.08 in local bar dues allocated to LSC through the pooled expense account. The OIG will refer the questioned costs to LSC management for review and action.[1]

The grantee maintained an internal written policy in accordance with the LSC regulation prohibiting membership fees or dues paid to any private or nonprofit organization, except those mandated by a governmental organization to engage in a profession, from being allocated to LSC funds. However, the grantee did not follow this written policy in practice. The costs for 2012, amounting to $1,580, were subsequently reclassified to another funding source other than LSC while the OIG was still on site.

Recommendation 1. The Executive Director should ensure that the grantee follow its written policy addressing the payment of bar dues and membership fees.

CREDIT CARDS

The OIG found that LASO management was not fully aware of all the outstanding credit cards being used by the organization. The listing of credit cards provided to the OIG by the LASO's Central Accounting Office did not include all LASO credit cards and authorized credit card users.

Through our disbursement test work, we found that credit card expenditures were properly approved, supported, allowable and allocable to LSC. However, the OIG discovered nine credit cards that were assigned to employees that were not issued in accordance with the grantee's credit card policy. Those credit cards were for the purchase of office supplies.

Office	Credit Limit	Store
Central	$ 5,550	Office Depot
OR City*	1,800	Office Depot
Marian Polk	2,200	Office Depot
Klamath Falls	15,000	Office Depot
Portland	5,250	Office Depot
Hillsboro	4,500	Office Depot
NAPOLS	5,000	Office Depot
Klamath Falls	20,000	Staples
Albany	3,000	Staples

*card canceled March 2012

[1]Grantee management acknowledged erroneously coding local bar dues to a pooled expense account which allocated $4,789.08 to LSC over the 3 years. However, they explained that in each year, they charged more in LSC eligible charges to other non LSC funding sources than they charged incorrectly to local bar dues. As such, the grantee believes that those LSC eligible expenditures charged to non LSC funding sources more than offsets the total amount of local bar dues incorrectly charged to LSC.

The Director of Finance stated he was not aware that the Staples and Office Depot accounts were credit cards, and the accounts were opened prior to his employment by LASO. The Director of Finance could not locate the LASO credit card forms required by the grantee's policy.

A credit card authorization and usage form is required to be prepared for each credit card. In the case of the office supply store cards, the grantee could not find the related credit card authorization forms we requested. The grantee's credit card policy states that "Only employees authorized by the Executive Director may use a LASO credit card. Central Accounting maintains a list of all authorized users".

Maintaining an accurate listing of corporate credit cards and ensuring each authorized credit card user signs LASO's credit card policy is key to controlling LASO resources. By the grantee not knowing what credit cards are available within the program, fraud, waste or misuse could occur and not be detected in a timely manner.

Recommendation 2. The Executive Director should instruct the Director of Finance to evaluate the current credit card procedures to determine whether they are adequate and if any changes need to be made to ensure all credit cards issued are properly authorized and controlled.

CONTRACTING

Retaining Written Justifications

During the period under review, the grantee awarded three sole source contracts without documenting the justification as to why the contracts were awarded without competition. Grantee management stated that due to past associations with the consultants, management determined these consultants were the best fit.

All three contracts were awarded when the grantee did not have written contracting procedures in place. The grantee subsequently implemented written contracting policies and procedures in June 2012. The new contracting policies and procedures adequately addressed competition, the need for documenting all contracting actions, and conform with LSC's *Fundamental Criteria*.

The three contract values were as follows:

1. Contract 1- Value not stated in contract (Contractor was paid $42,005 and $37,000 respectively in 2011 and 2012)
2. Contract 2 – $6,000
3. Contract 3- $2,000

Contract 1 was entered into in 1999 for IT support and was awarded without competition. Since then, the contract has been continually renewed without competition and/or without documenting the justification for awarding a sole source contract.

Contract 2 was also awarded without competition and written justification was not available. The contract is with a former employee who worked for the grantee ten years ago and, due to his specialized knowledge in grantee operations, was called upon to fill in for a regional director who was on parental leave. Contract 3 was awarded without competition and no written justification for the contract was provided. According to grantee management, the contract was awarded based on the fact the consultant had specialized experience in Native American Program operations.

The LSC *Fundamental Criteria* requires that the process used for each contract action be fully documented and the documentation be maintained in a central file. Any deviation from the approved contracting process is also required to be fully documented, approved and maintained in the contract file.

By not subjecting these contracts to competitive bidding and documenting the justification, it's not clear whether the grantee received the best price and service available for the money spent.

Recommendation 3. The Executive Director should ensure that documentation supporting all contract actions, including sole source, is prepared and maintained in a central file.

DOCUMENTING POLICIES AND PROCEDURES

The grantee's practices in the areas of central office purchasing and derivative income were not documented. Section 3-4 of the Accounting Guide states that 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*. Fully documenting policies and procedures helps ensure that proper controls are followed, serves as a vehicle to communicate controls to all staff, and helps ensure that staff members understand their roles and responsibilities.

Central Office Purchasing

The purchasing procedures for the LASO Central Administrative Office were not documented in LASO's accounting manual or in any individual written policy or procedure statement. The purchasing policies and procedures not documented included those governing purchasing approval, ordering, and receiving. We discussed purchasing policies and procedures with LASO's Director of Finance and he confirmed that the purchasing procedures for the Central Office were not documented in writing in the accounting manual.

In the central and regional offices, designated individuals are authorized to approve purchases of up to $1,000. The Director of Administration is authorized to approve purchases of up to $10,000 and purchases of computer equipment. Once a purchase order is approved, the office managers place orders for the regional offices, while the

Accounts Payable Bookkeeper places orders for the central office. In central and regional offices, purchases are received by the same individual that placed the order. Receivers confirm that ordered items were received and indicate that by signing the packing slip and providing it to approvers. Approvers prepare and sign payment requests and submit them to accounting along with the packing slips.

According to Director of Finance, he is aware of the control risk presented by allowing individuals that place orders to also receive them. He stated that the risk is due to staffing constraints, but is mitigated by having the individual that approved the order confirm with the receiver that the order was received before approving the payment request.

During our testing of disbursements, we found the purchasing process functioned as described above. Through our test work and review of the purchasing process, we determined that the same person did not authorize a purchase, receive the related goods and approve payment for those goods. While management has accepted the risk of not separating the ordering and receiving functions, the possibility of fraud does exist.

Recommendation 4. The Executive Director should establish a process whereby the purchasing function is adequately segregated so that employees responsible for placing orders do not also have accounting or receiving responsibilities.

Derivative Income

The grantee does not have written policies and procedures in place regarding derivative income. During our audit we performed tests of derivative income including attorneys' fees and interest income. We believe the grantee has adequate practices in place; however, those practices are not documented. The grantee's derivative income is made up of the following:

- **Investment and Interest income:** LSC is allocated interest and increases or decreases in investment values based on the percent of LSC funds that are in the account.

- **Attorneys' Fees:** The grantee has a form that details the nature of attorneys' fees. The summaries in case files contain information including the funding sources. The attorneys' fees earned from an LSC funded case are directly coded back to LSC funds as income.

Recommendation 5. The Executive Director should ensure that LASO's accounting manual contains written policies and procedures accounting for and allocating derivative income, and that those policies and procedures are properly implemented.

Summary of Grantee Management Comments

Grantee management agreed with 4 of the 5 findings and all of the recommendations in the draft report. They did not agree with the OIG's finding that resulted in $9,099.96 in questioned local bar dues. The grantee cited two reasons for disagreeing with the questioned cost. The grantee detailed that it uses a cost allocation method that includes an expense pool for LSC eligible expenses. Under the grantee's accounting practices, non-LSC eligible expenses are not to be included in that pooled expense account. The grantee acknowledged that the bar dues were erroneously coded as a non-LSC eligible expense in their pooled account. However, they feel that although erroneously coded, the bar dues were fully offset by the amount of LSC eligible costs that were allocated to other funding sources, and, as a result, the LSC grant was not overcharged. In addition, grantee management states that because the bar dues were coded to an expense account where costs are allocated to funds from multiple funding sources, it's not accurate for the OIG to conclude that the bar dues were paid solely with LSC funds. They identified the portion of the pooled account allocated to LSC as 51 percent in 2009, 52 percent in 2010 and 55 percent in 2011 for a total allocated amount of $4,789.08. Management's formal comments are included in their entirety in Appendix II of this report.

Grantee management agreed with the finding on credit cards. They stated they were aware that the office supply store accounts existed and asserted that the grantee has maintained adequate controls over these accounts. However, the grantee acknowledges they are underwritten by a credit card company and is now treating the accounts as credit card accounts.

The grantee agreed with our finding on the need for sole source justifications for contracts awarded without competition and will implement our recommendation. LASO management agreed to establish a process to adequately segregate their purchasing process as recommended by the OIG. Lastly, the grantee agreed with the OIG's recommendation to update the accounting manual to include all written policies and procedures to account for derivative income.

OIG Evaluation of Grantee Comments

Grantee management stated they have already implemented the OIG's recommendation to follow their written policy addressing bar dues, but disagree with the questioned cost portion of the finding. Although grantee management acknowledged the pooled expense account should not have included LSC unallowable bar dues, they state that only a certain percentage of that pooled account was allocated to LSC funds in 2009, 2010 and 2011. The OIG will accept the allocation percentages provided in the grantee's response and only question the $4,789.08 amount, which is based on those allocation percentages. Also, the grantee further stated there were more LSC eligible costs allocated to other funding sources than were incorrectly coded as bar dues in the pooled expense account, and as a result, the LSC grant was not overcharged in total. However, this does not negate the fact that a portion of the dues were in fact allocated to LSC funding. The OIG will refer the $4,789.08 to LSC management for further review and action.

The OIG considers the grantee's actions responsive to Recommendation 1 and that recommendation is considered closed. As of FY 2013, the grantee no longer allocated local bar dues to LSC funding.

The OIG considers grantee management's actions taken and planned to address Recommendations 2, 3, 4 and 5 as responsive to the findings and recommendations contained in the report. Recommendation 2 is considered closed as the grantee has already evaluated its procedures for use of the cards, documentation of purchases and review of documentation and payment of charges. The OIG considers Recommendations 3, 4, and 5 open until notified in writing they have been implemented by the grantee as provided for in its response.

APPENDIX I

SCOPE AND METHODOLOGY

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

- Disbursements
- Consulting Contracts
- Cost Allocation
- Credit cards
- Derivative income
- Internal management reporting and budgeting
- Property and equipment
- Salary Advances

To obtain an understanding of the internal controls over these areas, the grantee's 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 staff were interviewed as to their knowledge and understanding of the processes in place. 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 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 not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations.

To test 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 represented 3 percent of the approximately $5,322,214 disbursed for expenses other than payroll during the period January 1, 2011 to August 31, 2012 and consisted of 108 transactions totaling $168,541.

For the grantee expenditures sampled, we reviewed invoices, vendor lists, and traced expenditures to the general ledger. The appropriateness of charging grantee expenditures to LSC funds was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

To evaluate and test internal controls over consulting contracts, cost allocation, credit card use, derivative income, internal management reporting and budgeting, property and salary advances, we interviewed appropriate program personnel, examined related policies and procedures, and selected specific transactions to review for adequacy.

The initial on-site fieldwork was conducted at the grantee's central administrative office in Portland, Oregon from January 8, 2013 to January 15, 2013. The OIG conducted a second on-site visit on November 4-5, 2013. Documents reviewed pertained to the period January 1, 2011 to August 31, 2012. The remainder of our work was conducted 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 the audit objectives.

Legal Aid
Services of Oregon

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June 9, 2014

John M. Seeba
Office of Inspector General
Legal Service Corporation
3333 K Street NW, 3rd Floor
Washington, DC 20007-3558

Re: Draft Report on Selected Internal Controls

Dear Mr. Seeba:

Thank you for the opportunity to comment on the draft audit report on selected internal controls at Legal Aid Services of Oregon. LASO submits the following comments and corrections to the draft report.

BACKGROUND

The list of LASO field offices on page 1 of the draft report includes the Eugene office. LASO closed its Eugene office in late 2012 due to LSC budget cuts.

Recommendation 1. The Executive Director should ensure that the grantee follows its written policy addressing the payment of bar dues and membership fees.

LASO Response: LASO has already implemented this recommendation. LASO has charged all local bar dues to non-LSC sources since the OIG's initial audit field work in January 2013 and all accounting personnel have been instructed to charge all local bar dues to non-LSC sources in the future. All managers, who submit requests for payment of bar dues to the Central Office for payment, have been reminded to designate non-LSC funds as the payment source for local bar dues on LASO's request for payment form.

LASO disagrees, however, with the OIG's finding that LASO erroneously charged $9,099.96 in local bar dues to LSC. LASO does not acknowledge, as the draft report states in footnote 1, that it incorrectly charged that amount to LSC. LASO acknowledges that it charged that amount to a pooled account that contained some LSC funds. Under our accounting practices, non-LSC-eligible expenses are not to be included in that pooled expense account. We regret the error in including local bar dues in that pool and have taken steps to ensure that that error does not occur again. Nevertheless, we believe that it is inaccurate to say that those costs were paid with LSC funds.

First, we contend that, based on our allocation method, the amount assessed as a questioned cost is not accurate. LASO uses a cost allocation method that includes an expense pool for LSC-eligible expenses. Allocations are done in the aggregate and not for each individual expense. LASO acknowledges that in 2009-2011, it erroneously coded a non-LSC eligible expense – local bar dues – to that pool and that the total amount of local bar dues paid for those three years totals $9,099.96. However, because the bar dues were coded to an expense account where costs are allocated to funds from multiple funding sources, it is not accurate to conclude that these dues were paid solely with LSC funds.[1] All expenses in the expense pool, including local bar dues, were allocated to a combination of funds; none were allocated only to LSC funds. The OIG's draft findings correctly state: "These costs were initially recorded to a pooled expense account and then a *portion* of that cost allocated to LSC in accordance with the grantee's cost allocation methodology" (emphasis added). In 2009, 51% of LASO's dues, fees and license expenses were allocated to LSC; in 2010, 52% of those expenses were allocated to LSC; and in 2011, 55% of those expenses were allocated to LSC. Therefore, at most, the amount of local bar dues erroneously allocated to LSC funds would equal $1,453.50 for 2009, $1,731.58 for 2010, and $1,604.00 for 2011, for a total of $4,789.08.

Second, because the local bar dues were allocated to an account that uses funds from multiple sources, we maintain that any possible amount of questioned costs was fully offset by the amount of LSC-eligible costs in the pooled expense account. LASO uses general ledger account 7160 for expenses related to Dues/Fees/Licenses. The local bar dues at issue were charged to that general ledger account. The spreadsheet provided to the OIG during the audit shows the total expenditures from account 7160 for 2009, 2010, and 2011; the amount of those expenditures that was LSC-eligible; the lower amount that was actually charged to LSC; and the amount of the local bar dues expenses for these years.

Excluding the amount of the local bar dues, in 2009 there were LSC-eligible costs in the amount of $29,992.63 in the Dues/Fees/Licenses account, but we charged only $23,867.54 of that amount to LSC. In 2010, the LSC-eligible costs in the account totaled $31,727.41, but we charged only $26,491.48 to LSC. In 2011, the LSC-eligible costs in the account totaled $28,643.66, but we charged only $25,907.65 to LSC. For all three years, the amount of non-LSC funds used to pay for LSC-eligible costs exceeds the total amount charged to LSC and exceeds the amount of the local bar dues. As a result, we dispute a finding of questioned costs in any amount.

Recommendation 2. The Executive Director should instruct the Director of Finance to evaluate the current credit card procedures to determine whether they are adequate and whether any changes need to be made to ensure all credit cards are properly issued and controlled.

LASO Response: LASO management, including the Director of Finance, was aware that its regional offices maintained accounts with office supply stores that allowed the offices to

[1] There are some expenses that we "hard code" as LSC expenses, such as some costs related to our PAI program. For expenses in this pooled expense account, however, because we have insufficient LSC funds to cover all costs, we allocate funds from a number of funding sources to pay these expenses.

purchase supplies without advance or contemporaneous payment. The accounts function very similarly to a vendor account. For example, we have accounts with printing companies for letterhead, business cards, etc. Offices can place orders using these accounts and we are billed later for the items we purchase. The office supply cards operate very similarly to these and were not viewed as presenting the same type of concerns as a credit card that can be used with multiple vendors and for a wide array of expenses.

LASO has maintained adequate internal controls over these accounts. Administrative legal assistants are responsible for keeping track of office supplies and placing orders, under the supervision of regional directors. LASO management authorized these employees to utilize these accounts to purchase office supplies. Each regional office receives its own statement for its office supply account at its office. Regional directors review and approve the requests for payment for supplies, as they do with other office bills and invoices. The office submits the office supply bill for payment by the Central Office through the regular accounts payable procedures with all the necessary approvals and back-up. As with all accounts, we protect account information and provide limited access. We have not had problems with the office supply cards because they function so similarly to merchant accounts.

Most of these accounts were opened many years ago, before LASO adopted an accounting manual and credit card policy. Because the accounts were viewed as the equivalent of merchant accounts, they were not incorporated in the credit card policy when it was adopted. Nevertheless, LASO acknowledges that the office supply accounts are underwritten by a credit card company and is now treating the accounts as credit card accounts.

The OIG's recommendation has been implemented. We have evaluated our procedures for use of the cards, documentation of purchases, review of documentation and payment of charges. We have determined that those procedures provide adequate internal controls and that no changes need to be made to those procedures. After the OIG field work in our office in January of 2013, the Director of Finance, in addition to following the regular accounts payable procedures, reviewed any payments to Office Depot and Staples with extra scrutiny. That review revealed that there have been no transactions that differ from these accounts being used as merchant-only accounts. No further new controls were deemed necessary.

In addition to its review of internal controls related to these accounts, LASO cancelled the Hillsboro Office Depot card and converted to a Quill merchant account. LASO also cancelled the Office Depot card for the Klamath Falls office and reduced the credit limit on the Staples card to $3000.[2] All authorized users of the office supply cards have signed LASO's credit card agreement. The LASO Board of Directors has revised our Accounting Manual to specifically reference the office supply cards.

[2] The correct credit limit for the Central Office card is $5,500, not $5,550 as stated in the draft report.

Recommendation 3. The Executive Director should ensure that justifications are prepared and maintained for all sole source awarded contracts explaining why they were awarded without competition.

LASO Response: LASO will implement this recommendation when awarding sole source contracts in the future.

Recommendation 4. The Executive Director should establish a process whereby the purchasing function is adequately segregated so that employees responsible for placing orders do not also have accounting or receiving responsibilities.

LASO Response: LASO will implement this recommendation.

Recommendation 5. The Executive Director should ensure that LASO's accounting manual contains written policies and procedures accounting for and allocating derivative income, and that those policies and procedures are properly implemented.

LASO Response: LASO will implement this recommendation. We agree with the OIG's finding that we have adequate practices in place regarding derivative income but that those practices are not specifically set forth in our Accounting Manual.

We appreciated the professional courtesies of the OIG review team while they were on-site. Thank you for your consideration of our comments. If you need any additional information, please feel free to contact me.

Sincerely,

Jan R. Morgan

Janice R. Morgan
Executive Director