

November 23, 2015

Mr. Raymond D. Macchia
Executive Director
Legal Aid of Wyoming, Inc.
211 W. 19th Street
Suite 300
Cheyenne, WY 82001

Dear Mr. Macchia,

Enclosed is the Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Legal Aid of Wyoming, Inc. 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 the proposed actions to address all recommendations in the report as responsive except for one. The OIG considers recommendation 14 as partially responsive. Although the Grantee response indicated that changes to review timesheets have been made in practice, there was no mention that the Accounting Manual will be updated.

Recommendations 1, 3, 5, 6, 7 and 9 are considered closed as Grantee management has taken immediate action to implement the recommendations.

Recommendations 2, 4, 8, 10, 11, 12, 13, 14 and 15 will remain open until the OIG receives written notification that the proposed actions have been completed and the policies have been revised and implemented.

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 Aid of Wyoming, Inc.
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Sent by E-mail to Board of Directors
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**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL
CONTROLS
LEGAL AID OF WYOMING**

RNO 951050

Report No. AU 16-02

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INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at the Legal Aid of Wyoming (LAW or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's program administration office in Cheyenne, WY 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 recipients' 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

Legal Aid of Wyoming is a non-profit corporation, organized for the purpose of providing legal assistance in non-criminal matters for persons financially unable to afford legal assistance in Wyoming. LAW's administrative office is located in Cheyenne, WY and LAW has four satellite offices located in Casper, Lander, Rock Springs and Gillette.

LAW receives grant and contract support from local, state, federal and private sources. According to the grantee's audited financial statements for the year ended December 31, 2014, the total LSC and non-LSC funding received by the grantee was \$1,136,429. Approximately 51 percent of the grantee's total funding was provided by Legal Services Corporation in the amount of \$577,622 and approximately 49 percent from non-LSC funding in the amount of \$558,807.

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.

AUDIT FINDINGS

To accomplish the audit objective, the OIG reviewed and tested internal controls related to cash disbursements, credit cards, cost allocation, contracting, fixed assets, general ledger controls, derivative income, internal reporting and budgeting, and employee benefits. While many of the controls were adequately designed and properly implemented as they relate to the specific grantee operations and oversight, some controls need to be strengthened and formalized in writing. The OIG identified the areas listed below that need to be improved.

General Ledger and Financial Controls

In our review of the grantee's general ledger and financial controls we found a lack of internal control over the QuickBooks accounting system. The QuickBooks accounting system has features of an audit trail to track transactions by user name. These features are not being used because the Executive Director, Executive Assistant and the Bookkeeper (who works remotely) have the same username and a common password. By use of the same username and password, all three personnel have unrestricted access to the modules and functions of the accounting system. Passwords should be unique to the individual user. Default passwords should be changed when installed to prevent unauthorized access and to reduce risk of fraud.

In addition, because of their unrestricted access, all three personnel have the ability to create, add and deactivate new vendors into the accounting system. LSC's *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide stipulates that duties must be segregated so that no individual can initiate, execute and record a transaction without a second independent individual being involved in the process. The LSC Accounting Guide also stipulates that each recipient should establish the system most appropriate to its needs to provide an adequate audit trail for all transactions.

The Executive Director explained that he is the administrator of the accounting system and there was no particular reason the accounting system was set up that way. He also added that only one person at a time can access the system.

Restricting access to the accounting system and having the ability to produce an audit trail to the accounting system reduces the potential for fraud or errors occurring or going undetected.

Recommendations: The Executive Director should:

Recommendation 1: establish a unique username and password for each employee to prevent unauthorized access.

Recommendation 2: update the accounting system to include an audit trail to identify users and help reduce the risk of fraud.

Recommendation 3: establish user profiles for each employee based upon their responsibilities in order to reflect separation of duties.

Cash Disbursements

The LSC OIG reviewed the grantee's policies and practices over disbursement transactions and found that the grantee's policies are mostly comparable to LSC's *Fundamental Criteria*. In addition, the grantee's disbursements we tested were properly allocated and allowable. However, there are a few areas where the grantee has opportunities to improve both their policies and practices. First, the grantee's Accounting Manual does not have written procedures for the purchase and receipt of goods and services. While our review disclosed that the practices employed by the grantee were adequate, these practices were not in writing.

Also, since the Bookkeeper currently works remotely, the Bookkeeper's responsibilities written in the grantee's Accounting Manual no longer applies. The Executive Director explained that he is aware that some of the documented policies and procedures are no longer applicable and need to be updated to reflect their current practices. Without current and adequate written policies and procedures in place, transactions may be initiated and recorded that would 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 to communicate the controls to the staff.

Based on our test work, there was no evidence that the grantee verified whether the items were actually received in five separate disbursement transactions totaling \$6,854: four

transactions with a total amount of \$1,897 for office supplies and one transaction with a total amount \$4,957 for the purchase of laptops and monitors. The LSC Accounting Guide stipulates the receipt of goods and the accuracy of invoices should be verified and documented. In addition, the grantee's Accounting Manual also stipulates that invoices received in the field offices be matched with Purchase Orders (if applicable), receiving documents and be reviewed for accuracy.

The Executive Director explained that the individuals receiving the office supplies and IT equipment would verbally inform him if an item was not received. However, without adequate internal verification, cash may be disbursed for goods and services not received.

Lastly, there were five disbursement transactions on the grantee's Discretionary account made by the Executive Director totaling \$909 for travel and membership dues without the appropriate level of management oversight, such as by a Board Member. Although these transactions were adequately supported and allowable, we found that these transactions were approved by the Executive Director himself.

According to LSC's *Fundamental Criteria*, approval should be required at an appropriate level of management before a commitment of resources is made. The Executive Director explained that these transactions were from the Discretionary account in which case he is the only signatory and their policy allows him to write checks for amounts below \$100 without a second signatory. We note that it is a good financial practice for an organization's senior executive to report on a periodic basis to its Board of Directors on activities such as check disbursements where normal separation of duties do not exist.

Recommendations: The Executive Director should:

Recommendation 4: update the Accounting Manual to reflect current practices and include purchasing and receiving policies and procedures.

Recommendation 5: ensure that all disbursements are adequately supported and comply with their own policy to match invoices received with purchase orders and receiving documents and be reviewed for accuracy.

Recommendation 6: revise the disbursement policy to include oversight levels for the Executive Director's transactions and ensure that oversight of transactions is performed by the Board of Directors.

Credit Cards

The grantee holds one credit card with only the Executive Director as an authorized user. The grantee's policy states that the credit card will be used for car rental, hotel reservation, training fee, airfare and other purchases that would require direct payment and will not otherwise accept payment via company check. Although the grantee's policies and procedures over credit card use are mostly comparable to LSC's *Fundamental Criteria* there is no evidence of any credit card reconciliation and review process.

According to the Bookkeeper, credit card reconciliations are reviewed monthly by the contracted CPA and the transactions are reviewed by the Board's finance committee every quarter. The contracted CPA also explained that he is not aware of the requirement to document the Committees' review but will start documenting these reviews going forward. Credit card reconciliations prove that every transaction sums to the correct ending balance. This process is important for the grantee to check for possible fraudulent activity or errors.

The LSC Accounting Guide stipulates that the reconciliation should be reviewed and approved by a responsible individual and should be appropriately documented by signature and date. Independent and documented reconciliation procedures can substantially decrease the likelihood of irregular or improper disbursements and increase the likelihood that errors will be discovered and corrected in a timely manner.

In addition, two unallowable credit card transactions totaling \$123 for flower purchases were charged to LSC for employees' bereavement and a new baby. According to 45 CFR § 1630.3 expenditures by a recipient are allowable under the recipients grant or contract only if the recipient can demonstrate that the cost was reasonable and necessary for the performance of the grant or contract as approved by LSC.

The Executive Director explained that the unallowable LSC charges were an oversight and LSC unallowable transactions are usually allocated to an unrestricted fund. Although there are practices in place, there were no written policies over LSC unallowable transactions. Failure to ensure that only allowable transactions are charged to LSC may result in questioned costs. The grantee volunteered to make the necessary correction and reallocated the unallowable expenses of \$123.31 to an unrestricted fund.

Recommendations: The Executive Director should:

Recommendation 7: ensure that reviews of credit card reconciliations are documented as required by LSC's *Fundamental Criteria*.

Recommendation 8: enhance written policies to ensure that LSC funds are only used to pay allowable costs.

Fixed Assets

We reviewed the grantee's policies and internal control practices over non-capitalized electronic items that contain sensitive or privileged information in addition to purchasing, recording, inventory, and disposing of fixed assets. As a result we found that the grantee maintains a list of non-capitalized electronic items such as laptops that are tracked through the network. The grantee performs a physical inventory once a year and has a sound policy and practice over purchasing of electronic items. The most recent inventory was performed in November 2014. However, there was no evidence that the grantee reconciles the physical inventory results to the fixed asset accounting record. The LSC Accounting Guide stipulates that the result of the physical inventory should be reconciled with the property accounting record. Specifically, the property subsidiary record must agree with the general ledger property accounts.

In addition, the grantee's physical inventory record does not contain the key elements required by LSC's *Fundamental Criteria*. The missing elements are: 1) description of the item including the model, serial, or other identification number, 2) cost and salvage value, 3) source of funds used to purchase the assets, and 4) date of disposal or sales price.

According to the grantee's policy, property in excess of \$1,000 should be capitalized, tagged, inventoried and depreciated. However, the grantee's tagging practices are not consistent with their own policy. We found that some items were tagged and some were not. In addition, we also found that the tags were not identified by a number; only by the company name.

The grantee sold 11 computer monitors, amounting to \$118.00 in March 2015. However, there is no record of disposal such as a listing of items disposed of, nor is the disposal information contained in the property record. In addition, the grantee also could not identify which monitors were disposed of because they were not identified by tag numbers. According to the Executive Director, they rarely dispose of property.

Properly accounting for fixed and physical assets enables the grantee to safeguard its assets, fully account for the assets purchased and support reconciliations so that property asset balances are accurate.

Recommendations: The Executive Director should:

Recommendation 9: update property records to include the key elements required by LSC's *Fundamental Criteria*.

Recommendation 10: properly account for fixed assets by adding identification numbers to property tags and reconciling physical inventory to property records thereby ensuring that subsidiary ledgers agree with the general ledger property accounts.

Contracting

The grantee's written policies and procedures for contracting are too general. The LSC Accounting Guide stipulates that because not all contracts are the same, the grantee should have procedures for various types of contracts, and have dollar thresholds and competition requirements included in the grantee's policies. In addition, consulting, personal service and sole-source contracts need additional oversight.

We sampled six consultant and service vendors to determine whether the grantee has adequate internal controls over the contracting process, policies and procedures. The grantee followed policies and procedures in one of six consultant and service vendors, identified as contract No. 4 in the table below. However, we found that in four contracts, identified as contracts Nos. 1, 2, 3 and 6, the grantee did not fully document the process used for each contract action and the supporting documents were not maintained in a central file. Furthermore, the grantee has an IT consultant, identified as contract No. 5, but there was no contract established for the service. Also, two of the contracts, identified as contracts Nos. 1 and 3 had no evidence of competitive bids including one sole-sourced contract with no sole source justification on file.

Contract No.	Purpose	Total amount LSC paid from 1/1/2014 to 3/31/2015	Type of Contract
1	Construction service	\$3,119.60	Competitive Bid
2	Independent CPA, Accounting service/consultant	\$5,048.34	Competitive Bid
3	Staffing service	\$129.38	Sole Source
4	Office Equipment Lease	\$3,138.29	Competitive Bid
5	IT consultant	\$11,448.14	N/A
6	Independent Auditor	\$18,031.92	Competitive Bid

The LSC Accounting Guide stipulates that the grantee should fully document the process used for each contract action and the documentation should be maintained in a central file. Any deviation from the approved process should be fully documented, approved, and maintained in the contract file. Where competition is applicable, the LSC Accounting Guide also stipulates that the documents to support competition should also be retained and kept with the contract files.

The Executive Director explained that the majority of the time he would obtain bids or quotes from several vendors but they do not keep the documentation on file. According to the Bookkeeper, the grantee failed to keep the supporting documents in a central file because the documents were filed separately by year.

Contracting is a high-risk area for potential abuse and if not properly conducted, weak contracting practices can result in waste of scarce funds and possibly subject the grantee to questioned costs proceedings.

Recommendations: The Executive Director should:

Recommendation 11: revise the written policies and procedures over contracting to ensure that contract services have a contract in place and all types of contracts have dollar thresholds and competition requirements.

Recommendation 12: ensure that the process used for each contract action is fully documented, including deviations, and maintained in a central file.

Employee Benefits

The OIG reviewed the grantee's employee benefits with a focus on salary advances and loans to employees to determine whether benefits are equitably offered and if practices meet LSCs *Fundamental Criteria* as stipulated in LSC's Accounting Guide.

According to the grantee, only travel advances are offered. We selected a sample of two travel advances and verified that proper procedures were followed and adhered to LAW's policies. The Executive Director stated there are no salary advances and loans offered to employees. However, in our review of the grantee's Accounting Manual, the salary advance policy stipulates an employee may request a salary advance in emergency situations. The Executive Director explained that the benefit is not actually offered to employees. When the grantee adopted another grantee's accounting manual this benefit was not removed from the manual.

In addition, we reviewed the grantee's procedures over timesheet approvals, specifically those of employees located in satellite offices. The grantee's Personnel Manual states that timesheets are approved by the Executive Director or the Deputy Director. We found that although employee timesheets are approved by the Executive Director, they were not reviewed by the immediate supervisor. Therefore, hours reported on the timesheet are not easily verified for accuracy prior to approval.

The LSC Accounting Guide stipulates that an attendance record shall be approved by the employee's supervisor. The Executive Director explained that the timesheets are not approved by the immediate supervisor because they are a small grantee. Good oversight by an immediate supervisor can deter time and attendance fraud.

Recommendations: The Executive Director should:

Recommendation 13: update the Accounting Manual to provide that salary advances are not allowed and ensure that the entire Accounting Manual applies to the grantee's current practices, policies and procedures.

Recommendation 14: update the personnel manual to state that hours reported on timesheets should be verified and approved by the employee's immediate supervisor.

Derivative Income

The grantee's policies and procedures related to derivative income are mostly comparable to LSC's *Fundamental Criteria*. However, the grantee does not have a policy and procedure over rental income and attorneys' fees. In 2014, the grantee received rental income totaling \$9,600 which was 100 percent allocated to LSC. According to the

Executive Director they adopted policies from another grantee. Some minor changes were made, but missed including rental income and attorneys' fees from the time that the grantees were allowed to receive attorneys' fees.

The LSC Accounting Guide stipulates that each grantee must develop a written accounting manual describing the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*. 45 CFR §1609.6 requires that each grantee shall adopt written policies and procedures to guide its staff in complying with this part and shall maintain records sufficient to document the recipient's compliance.

Failure to have a written policy or procedure on allocating rental income and attorneys' fees may result in an unfair allocation of the total amount of derivative income credited back to the appropriate funding source. In addition, there could be a lack of transparency and consistency in the application of the methodology especially in cases of staff turnover.

Recommendation 15: The Executive Director should develop a written policy on derivative income that includes specific procedures for rental income and attorneys' fees.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management agreed with all findings and recommendations contained in the report.

The grantee noted that they have received an LSC Leadership Grant. As part of the grant, the grantee stated they will work with a consultant to structure a proper audit trail for transactions in the accounting system. The grantee will also work with the consultant to properly update its Accounting Manual to address all recommendations related to the policies and procedures. The Grantee's comments are included in Appendix II.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers the proposed actions to address all of the recommendations in the report as responsive except for one. The OIG considers recommendation 14 as partially responsive. Although the grantee indicated that changes to review timesheets have been made in practice, there was no mention that the Accounting Manual will be updated.

Recommendations 1, 3, 5, 6, 7, and 9 are considered closed as Grantee management has taken immediate resolutions.

Recommendations 2, 4, 8, 10, 11, 12, 13, 14, and 15 will remain open until the OIG receives written notification that the proposed actions have been completed and the policies have been revised and implemented.

SCOPE AND METHODOLOGY

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

- Cash Disbursements,
- Credit Cards,
- Contracting,
- Cost Allocation,
- Derivative Income,
- General Ledger and Financial Controls,
- Internal Management Reporting and Budgeting,
- Property and Equipment, and
- Employee Benefits.

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 the grantee provided by reviewing available supporting documentation for the entries selected for review, conducting interviews and making physical observations to determine data consistency and reasonableness. We determined 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 consisted of 67 disbursements totaling \$86,419.19. The sample represented approximately 9 percent of the \$990,484.41 disbursed for expenses other than payroll during the period January 1, 2014 to May 31, 2015.

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 employee benefits, contracting, property and equipment, internal management reporting and budgeting; we interviewed appropriate program personnel, examined related policies and procedures and selected specific transactions to review for adequacy.

To evaluate the adequacy of the cost allocation process, we discussed the cost allocation process for the scope period with grantee management and requested for review the grantees written cost allocation policies and procedures as required by the LSC Accounting Guide. We tested the cost allocation amounts and reviewed the related reclassification entries 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 Accounting Manual.

The on-site fieldwork was conducted from July 7, 2015 through July 14, 2015. Our work was conducted at the grantee's program administration office in Cheyenne, WY and at LSC headquarters in Washington, DC. We reviewed documents pertaining primarily to the period January 1, 2014 through May 31, 2015.

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.

GRANTEE MANAGEMENT COMMENTS