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**Legal Services Corporation**

**Inspector General**

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February 20, 2020

Barbara Finkelstein  
Chief Executive Officer  
Legal Services of Hudson Valley  
90 Maple Ave,  
White Plains, NY 10601

Dear Ms. Finkelstein:

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) final report for our audit on Selected Internal Controls at Legal Services of the Hudson Valley (LSHV). Appendix II of the final report includes LSHV's comments to the draft report in their entirety.

The OIG considers the proposed actions to Recommendations 4 and 19 as fully responsive. These two recommendations are considered closed.

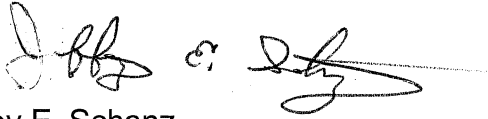
The OIG considers the proposed actions to Recommendations 1, 7, 13, 17, 21, 25 and 26 as responsive. However, these seven recommendations will remain open until the proposed actions have been completed and supporting documentation and the Board approved policies pertaining to Recommendations 7, 13, 17, 21, 25 and 26 are provided to the OIG.

The OIG considers LSHV's comments to Recommendations 3, 5, 8, 9, 10, 12, 14, 16, 18 and 23 as partially responsive. These ten recommendations will remain open until the OIG is provided a corrective action plan that specifically addresses the recommendations and documentation that the corrective action plan has been implemented.

The OIG also considers LSHV's comments to Recommendations 2, 6, 11, 15, 20, 22 and 24 as partially responsive. LSHV management either partially agreed, disagreed, and/or provided a response to our recommendation that suggests that the grantee will likely continue their process as is. These seven recommendations will be referred to LSC management for review and action.

Please send us your response to close out the 17 open recommendations, along with the supporting documentations within six months of the date of this final report. We look forward to receiving your submission by August 21, 2020.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeff E. Schanz', with a long horizontal flourish extending to the right.

Jeffrey E. Schanz  
Inspector General  
Enclosure

cc: Legal Services Corporation  
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Lynn Jennings,  
Vice President for Grants Management

Legal Services of the Hudson Valley  
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**LEGAL SERVICES CORPORATION**

**OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL  
CONTROLS**

**LEGAL SERVICES OF THE HUDSON VALLEY**

**RNO 233160**

Report No. AU 20-03

FEBRUARY 2020

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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 Legal Services of the Hudson Valley (LSHV or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in White Plains, NY and LSC headquarters in Washington, DC.

In accordance with the 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**

Legal Services of the Hudson Valley (LSHV or "grantee") is a not-for-profit law firm providing legal services, in seven counties in New York, to persons financially unable to afford legal assistance. Its mission is to provide free, high quality counsel in civil matters for individuals and families who cannot afford to pay an attorney where basic human needs are at stake. LSHV provides legal assistance in areas including evictions and foreclosure, domestic violence, child custody, health care, and veterans' affairs.

LSHV receives funding from various sources including LSC, the New York State Office of Court Administration, New York state grants, and city and county funding. According to the audited financial statements for the fiscal year-ended December 31, 2018, total funding for LSHV equaled \$15,523,930. LSC provided funding in the amount of \$1,904,678 or 12 percent of the grantee's total funding.

## **OBJECTIVE**

The overall objective was to determine whether a selection of LSHV's internal controls complied with the LSC Act of 1974, LSC Regulations, and other laws and regulations. The audit evaluated select financial and operational 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 LSHV's Accounting Manual and tested internal controls related to vehicles, contracting, disbursements, credit cards, fixed assets, cost allocation, internal reporting and budgeting, general ledger and financial controls, employee benefits, derivative income, and payroll. The controls were adequately designed and properly implemented as they relate to specific grantee operations and oversight over derivative income and payroll. However, LSHV needs to strengthen practices and formalize written internal controls for the remaining areas as detailed below.

### **VEHICLES**

The OIG found LSHV to have inadequate practices that do not comply with laws and regulations established by the Department of the Treasury's Internal Revenue Service regarding the maintenance of supporting documentation for use of the grantee's organization vehicles.

#### **No Supporting Documentation for Estimates of Personal Vehicle Use**

LSHV leases three vehicles that are used by the Chief Executive Officer, Chief Program Officer, the Information Technology (IT) and Infrastructure Manager. The IT and Infrastructure Manager maintains a log to track his annual personal and business use of the vehicle. However, the Chief Executive Officer and Chief Program Officer estimate the amount of mileage that can be attributed to personal use of their vehicles annually. The grantee did not provide supporting documentation detailing and substantiating these estimates of personal use.

LSHV management was not aware supporting documentation is required for the estimates of personal vehicle use.

A vehicle provided for employee use is considered a fringe benefit. Such benefits are taxable to the employee and must be included in the employee's pay unless properly excludable. A vehicle is properly excludable only to the extent it is used for legitimate business purposes, and not for personal use. Other requirements may apply. Employers may use a cents-per-mile rule (multiplying the standard mileage rate by the total number of miles the employee uses the vehicle for personal purposes) to determine the value of personal use (and therefore the amount to be included in income). In order to do so, the employer and their employees must maintain adequate records of business versus

personal use. These rules are discussed in the Department of the Treasury, Internal Revenue Service, Publication 15-B, *Employer's Guide to Fringe Benefits*.

It appears that a portion of the vehicle related expenses associated with the vehicles used by LSHV's Chief Executive Officer and Chief Program Officer may be personal in nature. However, due to the lack of recordkeeping on vehicle usage, the OIG could not determine an amount that should be questioned. Failure to maintain adequate books and records or provide substantiation of items reported on a tax return may result in misreporting of income and expenses.

We recommend the Chief Executive Officer ensures:

**Recommendation 1:** adequate records are maintained to document the mileage used on the company vehicles for both business and personal use. Records should include, at a minimum, dates of travel, origin and destination, as well as the purpose for travel.

**Recommendation 2:** the personal portion of the vehicles' use is accounted for as a fringe benefit in accordance with IRS regulations.

## **CONTRACTING**

LSHV's written policies regarding contracting were not comparable to the *Fundamental Criteria* in the LSC Accounting Guide or LSC Regulations. In addition, while interviewing LSHV staff and performing test work to assess LSHV's contracting practices, the OIG noted exceptions relating to documentation and approvals.

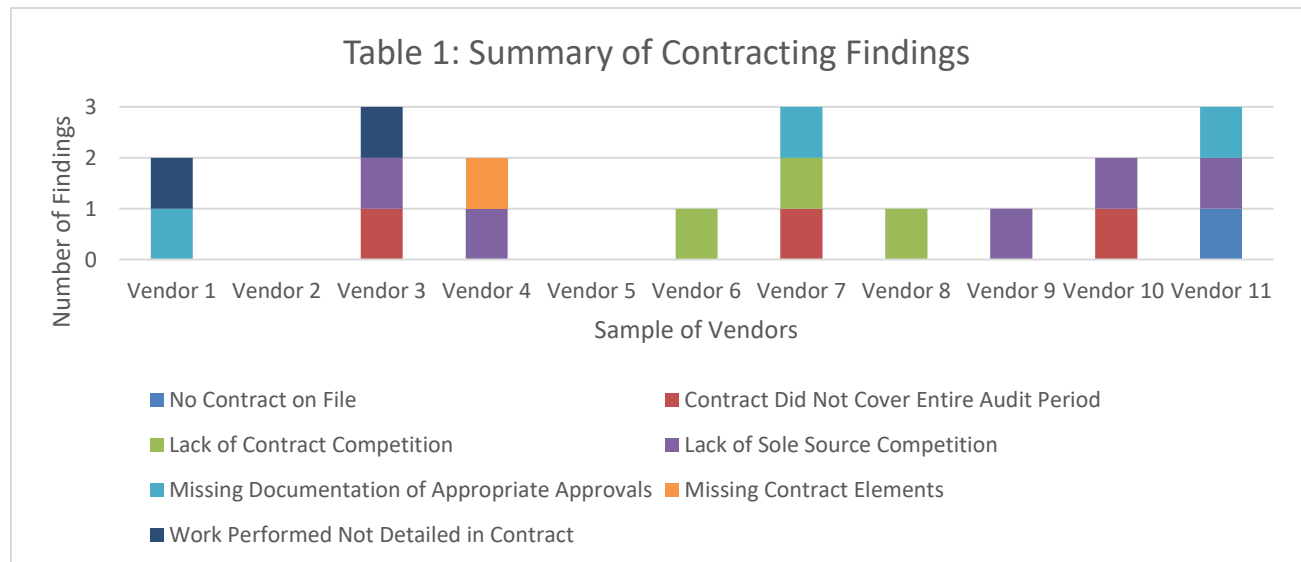
### **Inadequate Documentation and Approval Over Contracting**

The OIG performed contracting testwork on eleven judgmentally selected vendors. The eleven judgmentally selected vendors included a landscaping service, a telephone service, two technology consultants, a legal services consultant, human resources support, a maintenance contractor and four janitorial services. According to the grantee's check register, these vendors were paid a total of \$1,180,079 during the audit scope period. In our review we found that contracts were not on file, services were billed that were not detailed in the contract, and vendors were paid incorrect amounts. Additionally, some contracts did not have documentation of appropriate approvals, contained inadequate sole source documentation, or were missing required contract elements.

The OIG noted inadequate contracting documentation and approvals as follows:

- One of the eleven vendors, who provided handyman services to the grantee, did not have an agreement or contract on file. This vendor was paid a total of \$15,692 during our audit scope. The grantee had a verbal agreement in place with the maintenance contractor that he would be compensated biweekly for his services at a flat rate of \$350. Although a verbal agreement does not suffice, the OIG noted invoices that showed the maintenance contractor was paid more than what was verbally agreed upon. Additionally, the grantee allowed the maintenance contractor to use the grantee's Home Depot credit card and the OIG noted additional internal control weaknesses in relation to the card.<sup>1</sup>
- Three of the eleven vendors, with payments totaling \$63,745, did not have contracts on file that covered the entire audit period.
- Three of the eleven contracts, with payments totaling \$41,492, did not have appropriate approvals documented from LSHV management.
- One of the eleven contracts with payments totaling \$31,121, did not detail the total contract amount, billing rate, or payment terms.
- Two of the eleven vendors, with payments totaling \$46,310, submitted invoices that included "other services" not detailed in the contract. In 2018, one of these vendors exceeded the maximum annual contractual amount of \$3,840 by \$640.
- Three of the six vendor contracts, which were subject to competition, with payments totaling \$646,819, contained no evidence of the contract having been competitively bid. There were no bids on file.
- None of the files for the five vendors with whom the grantee contracted without engaging in a competitive bidding process contained documentation justifying the sole-source contracts. Over the scope of the audit, the grantee made payments totaling \$149,218 to the vendors.

Table 1 provides an overview of the contracting findings.



<sup>1</sup> The vendor is discussed further in the Disbursement and Credit Card sections.

With respect to the business arrangement with the maintenance contractor, for which there was no contract on file, LSHV management stated that the grantee had been working with the contractor for over 20 years and they did not think that a formal agreement or contract was necessary. In the instances that the OIG found that contracts did not cover the entire audit period, LSHV management stated the missing contracts were for janitorial vendors and that the grantee was trying to renew janitorial contracts annually. Grantee management was aware that not all contracts had been maintained and acknowledged that contracts may have been lost in the past.

LSHV management acknowledged contracts that were missing documentation of appropriate approvals and details within the contract outlining the work to be performed was due to oversight. However, management stated that vendors could perform services not included in their contract because the grantee did not take issue with being invoiced for “other services” that were not outlined in the contract.

Lastly, for the lack of documentation and evidence of competition and sole source justification, LSHV management stated that the grantee did receive bids and quotes for some of the contracts but were unaware that the documentation had to be maintained. LSHV management also did not know what a documented sole-source justification was and were unaware that it was a requirement.

The LSC Accounting Guide Section 3-5.16: *Contracting*, states that the process used for each contract action should be fully documented and the documentation maintained in a central file. Documents to support competition should be retained and kept with contract files. The required approval level should be established for each contract type and dollar threshold, including when the board of directors should be notified or provide approval. Any deviation from the approved contracting process should be fully documented, approved, and maintained in the contract file. In addition, the statement of work should be sufficiently detailed so that the contract deliverables can be identified and monitored to ensure deliverables are completed. Additionally, LSC Program Letter 16-3 – *Procurement Policy Drafting 101* states that sole source engagements must typically be justified and documented.

Contracting is a high-risk area for potential abuse and fraud. Without adequate internal verification, cash may be disbursed for services not received, in advance of receipt, or in the wrong amount. Proper documentation helps ensure that the grantee has a legal arrangement outlining established procedures for the goods and/or services to be received. Contracts that lack signatures may indicate a lack of thorough and timely reviews and result in the grantee entering into improper contracting actions which may also subject the grantee to conflict of interest, impaired work, unreasonable prices and reduced value.

#### Inadequate Written Policies and Procedures

The OIG reviewed the grantee’s Accounting Manual for policies and procedures over contracting and found they were not comparable to the *Fundamental Criteria* contained in the LSC Accounting Guide or LSC regulations. The LSHV Accounting Manual lacks the following key elements outlined in the Accounting Guide:

- contracting procedures for the various types of contracts;
- documentation maintained for contracts;
- maintenance of contracts in central location;
- required approval level of contracts (including items that need to be approved by LSC); and
- who is authorized to execute a contract.

LSHV management was unaware, and did not understand why, the grantee had to incorporate LSC requirements in their Accounting Manual. Grantee management was also unaware that the grantee's Accounting Manual did not specify the individual responsible for entering into a contract on behalf of the grantee.

The LSC Accounting Guide, Section 3-4: *Internal Control Structure*, states "each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*." LSC Regulation 45 CFR §1631.8(a) states that prior LSC approval must be obtained prior to the expenditure of more than \$25,000 of LSC funds.

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to staff. Implicit, unwritten and "understood" delegations of authority often lead to misunderstandings and less than efficient operations.

We recommend the Chief Executive Officer ensures:

**Recommendation 3:** contracts are written, signed and maintained for all business arrangements. The contracts should fully document an adequate statement of work, the agreed upon terms, costs and payment terms and should be reviewed periodically to ensure that written terms are defined and current.

**Recommendation 4:** the process for each contract action is fully documented in writing such as sole-source justification and documentation of competition, if competitively bid.

**Recommendation 5:** a centralized filing system for all contracts is maintained and contains all pertinent documents related to the solicitation of bids, including receipt and evaluation of bids, sole source justification, vendor selection, a signed contract or agreement, approvals, and any agreed upon modifications to a contract or agreement.

**Recommendation 6:** vendors are paid according to the terms and descriptions of expected work to be provided and documented within the contract.

**Recommendation 7:** updates to the LSHV Accounting Manual include policies and procedures relating to various types of contracts, the documentation that should be maintained for contracts and the requirement that contracts be centrally filed. The updated policies and procedures should define the required approval level for contracts and include the requirement of LSC approval when \$25,000 or more of LSC funds are used.

## DISBURSEMENTS

LSHV's written policies and procedures regarding disbursements were comparable to the *Fundamental Criteria* in the Accounting Guide. However, through interviews and testing, the OIG found inconsistencies with written policies, lack of supporting documentation, lack of segregation of duties, disbursements not traceable to the grantee's general ledger, and funding code allocations that could not be confirmed. For testing, the OIG judgmentally selected a nonstatistical sample of 154 transactions totaling \$1,366,383, which represented approximately 10 percent of the \$13,643,814 disbursed for expenses other than payroll.

### Lack of Supporting Documentation

The OIG found eight disbursements totaling \$6,275 were lacking supporting documentation.

- Five disbursements totaling \$4,583 were missing documentation of employees' cell phone reimbursement request.<sup>2</sup>
- Three disbursements totaling \$1,692 were missing documentation of maintenance work performed.

LSHV management does not require submission of supporting documentation for cellphone reimbursements because the reimbursable amount is a flat rate. LSHV management stated that support was attached for the maintenance work; however, the OIG found that the attachments were not adequate to support the work performed. The maintenance contractor's timesheets were attached to the disbursement record, rather than invoices detailing the actual work performed. The timesheets did not document the maintenance contractor's rate of pay. There was no contract on file to indicate his pay rate<sup>3</sup>.

The LSC Accounting Guide, Appendix II, states "each check must be supported by appropriate documentation (e.g., payroll records, invoices, contracts, travel reports, etc.) as set forth in 45 CFR §1630." LSHV's Accounting Manual, Section 3300, states that the Accounting Manager scans a copy of the invoice into the grantee's drive on the server and staples and files the invoice and supporting documentation along with the check stub.

Lack of adequate supporting documentation, or improper filing of source documents, could result in unauthorized disbursements or disbursements being approved without the necessary knowledge that the costs are allowable.

### Lack of Approvals

The OIG found that six disbursements totaling \$13,539 lacked documented signatures of approval; whether on the invoice, expense voucher, or Check Request form.

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<sup>2</sup> Cell phone reimbursements are discussed in more detail in the Employee Benefits Section.

<sup>3</sup> The maintenance contractor is detailed in the Contracting and Credit Card sections.

For two disbursements, totaling \$1,697, LSHV management stated the employees' supervisors must have mistakenly not documented their approvals.

For the four remaining disbursements in the amount of \$11,842, LSHV management stated that documented signatures were on the invoices and the check request forms that the OIG reviewed. However, the OIG noted only signatures in the "requestor" field and no signatures of approval.

The LSC Accounting Guide, Section 3-5.4(a): *Cash Disbursements*, states "approval should be required at an appropriate level of management before a commitment of resources is made." The LSC Accounting Guide, Appendix II, states "the approval of a disbursement by an authorized individual shall be documented." LSHV's Accounting Manual, *Disbursement Management General Guidelines*, state "the AIC is to sign and date the Check Request and supporting documents." Section 3300 of the Accounting Manual states "all bills approved for payment must have signatures of the requestor and the requestor's supervisor or manager."

Failure to follow a prior approval process may result in employees being reimbursed, or funds being expended for goods and services that are not reasonable or have not been approved. There is also the risk of purchases being made at unacceptable prices or terms or without the knowledge of appropriate management.

#### Disbursements Not Traceable to the General Ledger

The OIG found seven disbursements totaling \$99,748 that were not traceable to the grantee's general ledger. The OIG also found that the grantee did not assign a funding code in their accounting system for these disbursements. Although the expenses were allowable, the OIG was not able to determine the allocation for these disbursements, which included the following.

- \$26,720 for the payment of contract work on an office building
- \$21,792 for the purchase of three servers
- \$17,200 for the payment for IT services and equipment
- \$9,900 for the payment of building maintenance work
- \$8,605 for the payment of carpet installation
- \$8,560 for the payment of vacation payout for terminated employees
- \$6,971 for the payment for printing services

LSHV management was unsure of why the OIG could not trace all disbursements to the general ledger; however, LSHV management did not provide the OIG with additional information when requested to indicate the exact location of the amounts in the ledger. The OIG made these requests through oral and email correspondence following the on-site visit. LSHV management stated some of the disbursements were included in a larger amount disbursed, however this could not be confirmed, and no further support was provided to the OIG. LSHV management did not give a clear explanation as to why

funding codes were not assigned in the accounting system. The OIG requested multiple times for clarification and support documentation to evidence the funding codes, however, the grantee did not provide sufficient information.

The LSC Accounting Guide, Section 3.5-6: *General Journal* states that each entry to the general journal should be fully described, adequately documented, sequentially numbered, and approved by an authorized individual. Section 3-5.15: *Electronic Banking*, stipulates postings to the general ledger must be easily traceable to the detail documentation. The LSC Accounting Guide, Section 3-5.4: *Cash Disbursements*, states that invoices should be posted to the appropriate general ledger account to which they were coded.

Unsupported or poorly referenced entries are difficult to trace, make it difficult to detect irregularities and may increase audit costs. Incomplete, inaccurate, or unsupported entries to the general ledger increase the possibility that the financial data may misrepresent the actual financial position of the recipient.

#### Lack of Segregation of Duties

During interviews, the OIG found that there is a lack of segregation of duties over accounts payable, general ledger, and safeguarding of the check stock. The Accounting Manager has duties involving both accounts payable functions and posting to the grantee's general ledger. In addition, the Chief Financial Officer and the Director of Accounting, who both are authorized check signers, have access to the grantee's check stock.

LSHV management stated segregation of duties may be lacking in some areas due to the limited number of staff in the Accounting department.

The LSC Accounting Guide, Section 3-4: *Internal Control Structure*, states "accounting duties should be segregated to ensure that no individual simultaneously has both the physical control and the record keeping responsibility for any asset, including, but not limited to, cash, client deposits, supplies and property. 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." Section 3-6 states the grantee should control access to check stock to help prevent fraud.

Inadequate segregation of duties can result in failure to prevent and detect error, fraud, theft and collusion.

We recommend the Chief Executive Officer ensures:

**Recommendation 8:** adequate supporting documentation is attached to all disbursements before funds are disbursed.

**Recommendation 9:** approvals are documented by an authorized individual before disbursements are paid.

**Recommendation 10:** proper, adequately referenced entries for disbursements are made to the general ledger, and that the source and detail documentation for disbursements can be easily traced to the general ledger.

**Recommendation 11:** the funding codes to which disbursements are allocated are coded in the accounting system and included with supporting documentation.

**Recommendation 12:** adequate segregation of duties over payment and posting to the general ledger is practiced, and access to check stock is appropriately controlled.

## **CREDIT CARDS**

LSHV's written policies and procedures regarding credit cards mostly complied with the *Fundamental Criteria*; however, some details were lacking. Upon interviews and testing, the OIG found that the grantee's practice did not consistently comply with its written policies and procedures. The OIG found inadequate practices regarding limiting the use of credit cards to authorized cardholders, documentation of approval, and documentation of Expense Report Forms. The OIG judgmentally selected a non-statistical sample of 35 credit card transactions totaling \$22,682 to review.

### **Inadequate Written Policies and Procedures**

The OIG found that LSHV's Accounting Manual for policies and procedures over credit cards detailed some of the elements required by the *Fundamental Criteria* in the LSC Accounting Guide. However, the grantee did not include written policies and procedures regarding activation and deactivation of credit cards, handling impermissible charges, incurring late fees/finance charges, credit card user agreement forms, and cash advances/ATM withdrawals.

LSHV management was not aware that this level of detail is required in the grantee's written policies and procedures.

The LSC Accounting Guide, Section 3-4: *Internal Control Structure*, states "each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the Fundamental Criteria."

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to the staff.

### Written Policy Does Not Reflect Current Practice

During interviews, the OIG found a discrepancy between the grantee's current practice and policies contained in their Accounting Manual regarding pre-approval of credit card transactions. LSHV's Director of Accounting stated pre-approval of credit card transactions is not required in practice. However, the grantee's Accounting Manual states the CEO, CFO and Attorneys in Charge for each office may use the office credit card for incidental office expenses without pre-approval when the expense is less than \$500.00, or in emergency circumstances when contact with another of the named administrators above is not feasible. During testing, the OIG found 11 transactions, in the amount of \$500 or more, totaling \$18,571 which did not receive pre-approval.

LSHV management was unsure of why the pre-approval policy was included in the grantee's Accounting Manual and indicated was likely included by mistake.

The LSC Accounting Guide, Section 3-4: *Internal Control Structure*, states "each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*."

Without detailed written procedures that reflect the practice in place, there could be a lack of transparency and consistency in the application of the methodology. Approved, documented policies and procedures represent grantee management's intentions and serve as a method of documenting the design of controls, communicating them to staff and ensuring proper controls are followed.

### Unauthorized Credit Card User

Through interviews and testwork, the OIG found that the grantee has a Home Depot credit card it provides to a maintenance contractor, who is a non-LSHV employee. The maintenance contractor uses the Home Depot card to purchase supplies necessary to complete maintenance work at LSHV offices. We noted that there was no process in place to obtain or document authorization for transactions that the maintenance contractor conducted using the card. The purchases were not pre-approved by grantee management and the grantee did not require the maintenance contractor to provide justification for the purpose of purchases.

The OIG reviewed three Home Depot credit card transactions totaling \$333 and found that none of the three transactions had an Expense Report Form completed, attached or approved by a LSHV employee. The IT and Infrastructure Manager signed one credit card statement; however, this approval is not adequate based on the grantee's policies and procedures.

LSHV management did not think it was necessary to apply the grantee's written credit card policies and procedures to the use of the Home Depot card as the maintenance worker was the only user. LSHV management stated the maintenance contractor had been providing services to the grantee for many years and that the IT and Infrastructure

Manager reviews his transactions. They stated that for this reason, they trust him to use the grantee's Home Depot credit card.

The LSC Accounting Guide, Appendix VII, stipulates the grantee should develop a form containing credit or debit card policies for employees to review and sign off on in order to use the cards. LSHV's Employee Handbook states "cards will be issued to members of management in such numbers and locations as deemed necessary by the CEO to carry out the business of LSHV."

Implicit, unwritten delegations of authority and justifications for purchases often lead to misunderstandings and less than efficient operations.

### Inadequate Credit Card Practices

During further testwork, the OIG found inadequate controls over the use, approval and maintenance of supporting documentation for the grantee's credit cards, excluding exceptions noted above with the Home Depot credit card. The following exceptions were noted:

- One transaction totaling \$2,750 had an Expense Report Form that was incomplete and missing necessary information to support the purpose for the transaction.
- One transaction totaling \$111 was made by a LSHV Attorney who was not authorized to use the credit card and did not have a documented credit card agreement on file. This transaction was also not approved by appropriate management.
- One transaction totaling \$70 was made by the Chief Executive Officer however, the transaction did not receive appropriate approval by the Chief Financial Officer as stated in the grantee's Accounting Manual.

LSHV management did not document the purpose for the transaction on the Expense Report Form as they believed it was implied. LSHV management stated that the unauthorized credit card user mistakenly used the credit card, and this was an isolated event. LSHV management stated that inappropriate approvals were made erroneously and the lack of approval of the Chief Executive Officer's transaction was due to an oversight.

The LSHV Employee Handbook states "employees who are issued credit cards must retain receipts and submit them with a supervisor approved Expense Report Form. Failure to comply will result in loss of credit card privileges." LSHV's Accounting Manual, Section 3900, states that "at the end of each billing cycle, the employee completes an expense form that is to be approved by their immediate supervisor. For the CEO, the reports are approved by the CFO and given to the board chair quarterly."

Adhering to and implementing written policies and procedures consistently helps ensure that proper controls are in place and helps ensure that staff members understand their roles and responsibilities.

We recommend the Chief Executive Officer ensures:

**Recommendation 13:** the grantee's Accounting Manual is updated to include policies regarding activation and deactivation of credit cards, handling impermissible charges, incurring late fees/finance charges, credit card user agreement forms, and cash advances/ATM withdrawals.

**Recommendation 14:** employees adhere to written policies regarding prior approval of credit card transactions.

**Recommendation 15:** the grantee's credit cards are used only by authorized LSHV employees for whom signed cardholder agreements are on file in adherence with written policies and procedures.

**Recommendation 16:** all Expense Report Forms are completed including adequate support detailing the purpose of the credit card transactions and are submitted and approved by management.

## **FIXED ASSETS**

LSHV's written policies and procedures regarding fixed assets were mostly compliant with the *Fundamental Criteria*; however, some details were lacking, and written policies did not reflect the grantee's current practice in tagging, tracking and disposing inventory. In addition, the OIG found inadequate practices that did not comply with the *Fundamental Criteria* regarding fixed asset and inventory records, and maintenance of disposition data.

### **Inadequate Written Policies and Procedures**

The OIG found the policies and procedures regarding fixed assets in LSHV's Accounting Manual mostly compliant to LSC's *Fundamental Criteria*. LSHV had adequate practices in place for tracking and disposal of electronic devices containing sensitive information; however, the grantee's Accounting Manual did not include related written policies and procedures. The grantee's current practice is to affix tags with identification numbers to fixed assets and inventory items including electronic devices. In addition, the grantee maintains an assignment listing for electronic devices containing sensitive information to track the location of the devices. The electronic devices containing sensitive information are disposed of by disassembling and shredding the hard drive along with all internal components.

LSHV management was not aware that this level of detail is required in the grantee's written policies and procedures.

The LSC Accounting Guide Section 3-4: *Internal Control Structure*, states “each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*.”

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to the staff.

#### Incomplete Fixed Asset and Inventory Listing

Based on the testwork performed, the OIG found that the internal controls over property records needed strengthening. LSHV’s Fixed Asset and Inventory Listing was not populated with all information required by the *Fundamental Criteria*. Specifically, it did not include the depreciation method, the source of funds used in acquiring the asset, and the disposition, including the date of disposal and the sales price, if applicable.

LSHV management stated the IT and Infrastructure Manager populated the depreciation method fields with the useful life rather than the depreciation method and omitted the source of funds for some fixed assets due to lack of accounting knowledge. The IT and Infrastructure Manager stated that the grantee does not maintain disposition data on assets and inventory.

The LSC Accounting Guide, Appendix II, states “property records for fixed assets and equipment should include a description of the property including model and manufacturer’s serial number or other identification number, date of acquisition, number of check used to pay for item, cost of the property and salvage value, useful life, depreciation method, source of funds used to acquire the property, description of how value was assigned if property was donated, location and condition of the property and the date the information was reported, inventory control number/tag, and the ultimate disposition data, including date and method of disposal and sales price if sold with the method used to determine the current fair value.”

Failure to maintain adequate property records may result in the inability to fully account for fixed asset purchases, and to support depreciation amounts and property asset balances.

#### Inadequate Fixed Asset and Inventory Listing

LSHV’s Fixed Asset and Inventory Listing was not up to date. The OIG found it contained duplicate tag numbers identifying different assets and inventory items. During our review of the listing, we noted duplication in the entry of tag numbers. The listing showed 16 tag numbers were duplicated and used twice in identifying 32 different fixed assets or inventory items; the same tag number was entered twice in the listing to identify two different assets or inventory items. In addition, we observed discrepancies when tracing inventory to the listing and when tracing inventory from the listing to its physical location. To perform the tests, the OIG judgmentally selected 42 inventory items out of a population of 771 items, including IT equipment, furniture and appliances.

To test for completeness and accuracy, we physically examined 20 inventory items and traced them to the listing. The OIG noted the following:

- We physically observed two inventory items in the White Plains office that were not included in the Fixed Asset and Inventory Listing.
- We physically observed three inventory items in the White Plains office and traced them to the listing; however, the office location noted on the listing was inaccurate. The items were actually located at a different office than was indicated in the listing.

To verify existence, we selected 22 inventory items from the listing and attempted to locate them at the location documented in the listing. The OIG noted the following:

- We could not trace three laptops to their physical location.
  - Two laptops were transferred to another office location. However, the listing still showed the laptops in the White Plains office. The grantee provided evidence to verify the existence of the laptops.
  - The grantee could not verify the existence of one laptop.

The IT and Infrastructure Manager stated that the listing contained duplicate tags numbers because the tags were recycled, and the listing was not updated accordingly. Duplication in the listing also existed due to tag numbers being erroneously entered in the listing twice to identify two different assets or inventory items. He stated that the items the OIG physically observed but was not able to trace to the listing, were most likely overlooked by interns conducting the physical inventory count. He stated that the Fixed Assets and Inventory Listing is only updated biennially when the inventory is conducted. He stated that was why the listing did not show the movement of inventory to different office locations. Lastly, the IT and Infrastructure Manager stated that the laptop the OIG was unable to physically examine had probably been disposed of, however the grantee does not maintain disposition data.

The LSC Accounting Guide, Section 2-2.4: *Property*, states “the recipient should be mindful of items that may contain sensitive information (for example, a computer with client confidential information) with values lower than \$5,000 and the need to inventory these items and dispose of them appropriately.” It also states that for property control purposes, a physical inventory should be taken, and the results reconciled with the property records at least once every two (2) years. Any differences between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the cause(s) of the differences. The accounting records should be reconciled to the results of the physical inventory with an appropriate note included in the financial statements, if determined to be material by the grantee’s auditor.

Failure to maintain adequate property records may result in the inability to fully account for fixed asset purchases and track electronic devices containing sensitive information may result in the improper disclosure of confidential client or personal information.

We recommend the Chief Executive Officer ensures:

**Recommendation 17:** updates to the LSHV Accounting Manual include policies and procedures regarding the grantee’s current practice in tagging and disposing of electronic devices containing sensitive information.

**Recommendation 18:** updates to the LSHV Fixed Assets and Inventory Listing include accurate and complete information required by the *Fundamental Criteria* and that a physical inventory is conducted and reconciled with the listing.

**Recommendation 19:** all IT equipment is disposed of properly and that the grantee maintains disposition data thereof.

## **COST ALLOCATION**

LSHV consistently performs allocations in what seems to be a fair, consistent and equitable manner to individual cost centers and funds according to their written policies and procedures. However, during test work, we discovered that the grantee does not maintain historical allocation records. Additionally, LSHV's written policies and procedures were comparable to the LSC Accounting Guide and *Fundamental Criteria*; but during interviews with the Director of Accounting, the OIG found that their described practices are not fully detailed within their Accounting Manual.

### **Allocation Records Not Retained**

The OIG selected a non-statistical, judgmental sample of five indirect costs totaling \$50,268 to determine whether the allocations were equitable and in accordance with the grantee's policies and procedures as well as LSC regulations and guidelines. The sample consisted of two rent payments, a maintenance service, accounting service and the telephone service provider for the audit scope period April 2017 through March 2019. Although the grantee consistently performs allocations, they did not maintain proper documentation to be able to test and follow the formula.

The grantee uses a Microsoft Excel workbook that contains methodologies in order to calculate percentages and formulas for allocating costs. The grantee was not able to provide historical formulas and workbooks for the five indirect costs. The OIG verified that the costs were allocated in an equitable manner by reviewing the final allocations. However, we could not vouch the sample of transactions within the financial software to determine whether the application is performing cost allocation in direct alignment with the workbooks.

LSHV management did not believe that maintaining the supporting documents for allocations were necessary since the process was fluid and the allocation bases change as funds are used and appropriated throughout the year. LSHV management stated that the grantee could not go back in the system and gather the old percentage rates used for our sample because the spreadsheet was updated without saving and maintaining the prior calculations.

The LSC Accounting Guide Section 2-5: *Accounting Records*, states “accounting records should be maintained on an automated system. Each grantee should establish the system most appropriate to its needs and provide an adequate audit trail for all transactions.” Section 3-5.9: *Allocations*, explains that “the allocation formula should be adequately documented in writing in sufficient detail for the auditor, LSC, OIG, GAO, and others to easily understand, follow, and test the formula.” Furthermore, Appendix II of the Accounting Guide states that records for indirect cost allocations should be maintained for seven years.

Failure to maintain adequate records may result in the inability to fully account for the ways in which cost are allocated and the ability to document compliance with LSC regulations and federal requirements.

#### Written Policies Do Not Fully Reflect Practice

The grantee’s written policies and procedures for cost allocation do not fully detail or correspond with the process that is practiced, as described in interviews. The grantee’s Accounting Manual states that allocations are reviewed annually, and percentages are adjusted. However, during interviews, the Director of Accounting explained a process by which the budgets and allocations are reviewed monthly as grants are awarded at different times throughout the year and as the grantee monitors how grant funds are expended.

LSHV management confirmed that the allocation process is a fluid process and the allocation methodology is always changing. LSHV management stated that the grantee does not always receive all the funds at the beginning of the year which is why the process is fluid. Grantee management has to revisit the allocation methodology monthly instead of annually as described in their Accounting Manual.

Section 3-4: *Internal Control Structure*, of the LSC Accounting Guide states “each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the Fundamental Criteria.”

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to staff. Without a detailed description of the cost allocation procedures, there could be a lack of transparency and consistency in the application of the methodology.

We recommend the Chief Executive Officer ensures:

**Recommendation 20:** the grantee maintains cost allocation documentation for the recommended seven years. The documentation should be maintained so that the auditor, LSC, OIG, GAO and other applicable entities can easily understand, follow, and test the allocation formula.

**Recommendation 21:** the grantee updates its Accounting Manual to accurately describe the process followed by the grantee in calculating allocations throughout the year.

## MANAGEMENT REPORTING AND BUDGETING

LSHV's written policies regarding management reporting and budgeting mostly complied with the *Fundamental Criteria* however; the OIG noted that some information required by the *Fundamental Criteria* was not detailed in the grantee's Accounting Manual. Through interviews with LSHV staff, the OIG found the LSHV budgeting procedures were adequate. However, during testwork, the OIG noted that the grantee does not always prepare monthly management reports and approvals are not documented.

### Management Reports Not Always Prepared Timely or Approved

LSC OIG found discrepancies in the procedures over preparing and approving management reports. Four monthly management reports were judgmentally selected to ensure that there were adequate internal controls over reporting and to determine whether the grantee's management reporting and budgeting process adheres to the *Fundamental Criteria* as well as the grantee's documented policies and procedures. Of the four months selected, two months did not have monthly management reports prepared.

During an interview, LSHV management stated that monthly management reports for months near year-end were not prepared because the Accounting Department was too busy closing-out the year. LSHV management also stated the same for monthly management reports that are to be prepared in the beginning of the year, stating that the Accounting Department was just coming from finishing the close-out from the previous year-end, and they did not prepare the reports.

The LSHV Accounting Manual requires that the Director of Accounting prepares monthly reports for review by the Chief Financial Officer for review. The *Fundamental Criteria* Section 3-5.9: *Management Reports*, states that "the director should receive a monthly management report within a prescribed number of days after month-end and that the director should use the monthly management reports to ensure that all program resources are used efficiently and effectively."

Untimely management reports may result in erroneous decision-making on the part of management and may also result in the director not receiving required monthly reports within a prescribed number of days after month-end to ensure program resources are used efficiently and effectively.

We recommend the Chief Executive Officer ensures:

**Recommendation 22:** all management reports are prepared timely after month-end.

## GENERAL LEDGER AND FINANCIAL CONTROLS

The OIG found LSHV's written policies and procedures regarding general ledger and financial controls to be comparable to the LSC Accounting Guide and *Fundamental Criteria*. The grantee's practices mostly adhered to their written policies and procedures as well as the LSC Accounting Guide. However, user rights to the grantee's accounting

system were not grant according to job function and responsibility resulting in a lack of adequate segregation of duties.

#### User Rights Not Granted According to Job Responsibility

The OIG reviewed the grantee's user rights to its accounting system (FUND E-Z Nonprofit Software) in order to ensure proper segregation of duties exist and user access is granted to users according to job function and responsibility. Within the accounting system, there are two System Administrators, the Director of Accounting and the Chief Financial Officer; and six additional users comprised of staff from the accounting department. The grantee's accounting system does not apply restrictions and access rights unique to each user in accordance with job responsibilities. The six accounting department users all have the same capabilities within the system.

According to the LSHV management, there was no purpose in restricting duties within the accounting system because one person does not solely work in one module.

Chapter 3-6: *Fraud Prevention* of the Accounting Guide lists key practices for the grantee to assign permissions and authorizations deliberately and only as needed. Furthermore, Appendix VII states that "duties of individuals should be so divided as to minimize the possibility of collusion, perpetration of irregularities, and falsification of the accounts. The objective is to provide the maximum safeguards practicable in the circumstances."

#### Lack of Segregation of Duties

There is a lack of segregation of duties over the maintenance of the master vendor list. The Accounting Manager, who oversees the accounts payable function, which includes initiating and processing payments, also has full access rights to the master vendor list.

LSHV management stated that it makes sense for the Accounting Manager to add and delete vendors since she performs the accounts payable functions and it is logical that she manages the vendors in the systems. LSHV management was unsure who else would be responsible for performing these duties.

The Accounting Guide Section 3-4: *Internal Control Structure*, states that "accounting duties should be segregated to ensure that no individual simultaneously has both the physical control and the record keeping responsibility for any asset. 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."

Without adequate controls, segregation of duties and deliberate permissions, projects or other transactions may be initiated that violate management intentions, resources may be wasted, a negative attitude towards internal accounting controls may develop within the recipient, and the grantee may not be able to detect unauthorized changes to the master vendor list which may lead to fraud, waste, or abuse of the grantee's resources.

We recommend the Chief Executive Officer ensures:

**Recommendation 23:** adequate controls are integrated in the accounting system so that users are granted rights by job function, job responsibility and only as needed.

**Recommendation 24:** segregation of duties are implemented over the master vendor list so that no individual simultaneously has both physical control and record keeping responsibility; and only users who are responsible for the maintenance of the master vendor list have access to add, edit, or delete vendors.

## **EMPLOYEE BENEFITS**

The OIG found that LSHV equitably offers health, dental, vision, life and disability insurance, a retirement plan, and parental, family, and vacation leave to employees. LSHV also offers eligible employees a cell phone reimbursement and Student Loan Repayment Assistance Program (LRAP). LSHV has adequate internal controls over the procedures related to LRAP, however these procedures are not documented in the LSHV's Accounting Manual. The OIG also found that the policies and procedures over cell phone reimbursement needed to be strengthened and documented in the LSHV's Accounting Manual.

### **Written Policies Needs to be Strengthened**

The OIG found the policies in LSHV's Accounting Manual and Employee Handbook regarding employee benefits are adequate and in compliance with LSC regulations and guidelines. However, the grantee's Employee Handbook is lacking pertinent details relating to the cell phone reimbursement policy; such as the procedure for the reimbursement, the allowable reimbursement amount, and supporting documentation required. The policy documented in the Employee Handbook states "Supervisory staff may be reimbursed for business use of personal cell phones. Please refer to the LSHV Accounting Manual for more detailed information." However, the grantee's Accounting Manual does not have a documented policy or make any reference to the cell phone reimbursement.

During an interview with LSHV's Human Resource Manager, the OIG found that the grantee has a documented Student Loan Repayment Assistance Program (LRAP) policy that is not documented in the grantee's Accounting Manual or Employee Handbook. The OIG did find the LRAP policy adequate and equitable; it outlines appropriate procedures to be followed by LSHV employees. However, the grantee's written policies and procedures should be updated to include all benefits offered to employees.

LSHV Management was unaware that the cell phone reimbursement policy was excluded from the Accounting Manual and was unaware that the policy documented in the Employee Handbook was vague and lacked pertinent details. LSHV management agreed that the cell phone reimbursement policy should be included in the Accounting Manual and include more details on the procedures of the reimbursement and the reimbursable amount allowed. LSHV management agreed that the LRAP Policy should be included in the grantee's Accounting Manual and Employee Handbook.

The LSC Accounting Guide Section 3-4: *Internal Control Structure*, stipulates that “each recipient must develop a written Accounting Manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*.”

Written policies and procedures serve as a method to document the design of controls and adequately communicate them to staff. Without detailed procedures over employee benefits, there could be a lack of transparency and consistency in the distribution of the benefits.

We recommend the Chief Executive Officer ensures:

**Recommendation 25:** the grantee's Employee Handbook and/or Accounting Manual also includes the Student Loan Repayment Assistance Program policy.

**Recommendation 26:** the grantee's Employee Handbook and Accounting Manual to enhance and strengthen the Cell Phone Reimbursement policy. The Policy should include details on the positions allowed to be reimbursed for their personal cell phone use, the procedures to be followed to request the reimbursement, the frequency of the reimbursement, support documentation required, and the amount allowed to be reimbursed.

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

LSHV management provided their responses to the OIG's Draft Report on January 16, 2020. LSHV's responses are included in their entirety in Appendix II.

Out of 26 recommendations, LSHV management agreed with 14, partially agreed with nine (9), and disagreed with three (3).

Specifically, LSHV disagreed with:

- Recommendation 2 and stated personal use of the company vehicles was quantified and stated on W-2's for all staff requiring company vehicles and those individuals paid tax on that income. The grantee also stated that this practice has been in place for eight years and has been reviewed by their external auditor, OCE and several other federal, state and local audits and site visits and has been determined to be in compliance with IRS Publication 15-B, Employer's Guide to Fringe Benefits.
- Recommendation 24 and stated that the grantee's Accounting staff is small in size and the significant workload necessitated by the conditions under which they operate limits their ability to segregate various functions and prohibit certain staff from being available to assist and participate in different functions.
- Recommendation 25 yet stated the grantee will include the Student Loan Repayment Assistance program policy in their Employee Handbook and Accounting Manual.

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

The OIG's understanding of LSHV's responses is that grantee management believes they provided the OIG with adequate information to satisfy our audit objectives. However, the documentation provided to the OIG was not adequate because LSHV did not provide a sufficient audit trail required for testing and verification of transactions.

The OIG's view of LSHV's response is that they believe that they fully cooperated with the OIG during and after the audit, provided all available documents, and advised the OIG of document requests that did not exist. However, LSHV was not fully cooperative during and after the on-site visit. The OIG made multiple requests for support from LSHV management during and after the on-site visit, specifically regarding our concerns with disbursements. The LSHV Chief Financial Officer stated in response to multiple requests that it was too cumbersome and time consuming for such a small accounting department to provide all the support that was requested.

Additionally, on May 21, 2019, our findings were presented to the LSHV management during an on-site exit conference. After our concerns were raised, the grantee's Chief Executive Officer reminded the OIG team that LSHV receives a minimal amount of funding from LSC and that their other funders, who provide larger funding amounts to the grantee, do not have as many restrictions and requirements. OIG management, including the OIG Assistant Inspector General and Legal Counsel, contacted LSHV management on June 20, 2019 to discuss the lack of cooperation with LSHV staff and attempted to get support information in the area of disbursements. LSHV did not provide all support information and on June 28, 2019 the OIG contacted LSHV management through email and indicated which findings would be presented in the draft report.

#### *OIG Evaluation of Grantee Management Responses to Recommendations*

The OIG considers LSHV's comments and proposed actions to Recommendations 4 and 19 as fully responsive. The OIG considers the two recommendations to be closed.

- The grantee responded to Recommendation 4 by stating that they partially agree with the recommendation however their proposed corrective action fully addresses the recommendation. The grantee states that they will maintain bids and sole source justifications for all contracts.
- The grantee responded to Recommendation 19 by stating that they will ensure that all IT equipment is disposed of properly and maintain documentation of the disposal.

The OIG considers LSHV's comments for Recommendations 1, 7, 13, 17, 21, 25 and 26 as responsive. However, these recommendations will remain open. The following supporting documentation is requested to close these recommendations.

- Recommendation 1 will remain open until the OIG is provided evidence that logs beginning January 1, 2020 are maintained for all individuals requiring company vehicles documenting the mileage used, dates of travel, origin, and destination, as well as the purpose for travel.
- Recommendation 7 will remain open until the OIG is provided with an updated and Board approved policy relating to contracting processes, documentation, filing, and approvals.
- Recommendation 13 will remain open until the OIG is provided with an updated and Board approved policy relating to credit card activation and deactivation, impermissible charges, late fees, agreement forms, and cash advances.
- Recommendation 17 will remain open until the OIG is provided with an updated and Board approved policy relating to procedures for fixed asset tagging and disposal of electronic devices.

- Recommendation 21 will remain open until the OIG is provided with an updated and Board approved policy relating to the cost allocation processes.
- Recommendation 25 will remain open until the OIG is provided with an updated and Board approved policy relating to the Student Loan Repayment Assistance Program. Although the grantee disagreed with the recommendation, their corrective action plan fully addressed the recommendation.
- Recommendation 26 will remain open until the OIG is provided with an updated and Board approved policy relating to the Cell Phone Reimbursement.

The OIG considers LSHV's comments for Recommendations 3, 5, 8, 9, 10, 12, 14, 16, 18 and 23 as partially responsive. These recommendations will remain open until the OIG is provided a corrective action plan that specifically addresses the recommendations.

- Recommendations 3 will remain open until the OIG is provided a corrective action plan that states how the grantee will ensure contracts are written, signed and maintained for all business arrangements and that the contracts should fully document an adequate statement of work, the agreed upon terms, costs and payment terms and should be reviewed periodically to ensure that written terms are defined and current.
- Recommendations 5 will remain open until the OIG is provided a corrective action plan that states how the grantee will ensure a centralized filing system for all contracts is maintained and contains all pertinent documents related to the solicitation of bids, including receipt and evaluation of bids, sole source justification, vendor selection, a signed contract or agreement, approvals, and any agreed upon modifications to a contract or agreement.
- Recommendations 8 will remain open until the OIG is provided a corrective action plan that states what best efforts will be used in order to ensure adequate supporting documentation is attached to all disbursements before funds are disbursed.
- Recommendations 9 will remain open until the OIG is provided a corrective action plan that states what best efforts will be used in order to ensure approvals are documented by an authorized individual before disbursements are paid.
- Recommendations 10 will remain open until the OIG is provided a corrective action plan states what best efforts will be used in order to ensure proper, adequately referenced entries for disbursements are made to the general ledger, and that the source and detail documentation for disbursements can be easily traced to the general ledger.
- Recommendations 12 will remain open until the OIG is provided a corrective action plan that states what best efforts will be used in order to ensure adequate segregation of duties over payment and posting to the general ledger is practiced, and access to check stock is appropriately controlled.

- Recommendations 14 will remain open until the OIG is provided a corrective action plan that state what best efforts will be used in order to ensure employees adhere to written policies regarding prior approval of credit card transactions.
- Recommendation 16 will remain open until the OIG is provided a corrective action plan that addresses that all Expense Report Forms are completed including adequate support detailing the purpose of the credit card transactions and submitted and approved by management.
- Recommendation 18 will remain open until the OIG is provided a corrective action plan that addresses the requirement for a physical inventory to be conducted and reconciled with the grantee's Fixed Assets Listing. The recommendation also will remain open until the OIG is provided an updated LSHV Fixed Asset and Inventory Listing, a copy of the most recent inventory conducted and evidence that the inventory has been reconciled with the listing.
- Recommendations 23 will remain open until the OIG is provided a corrective action plan that states what best efforts will be used in order to ensure adequate controls are integrated in the accounting system so that users are granted rights by job function, job responsibility and only as needed.

The OIG also considers LSHV's comments for Recommendations 2, 6, 11, 15, 20, 22 and 24 as partially responsive. The grantee either partially agreed, disagreed, and/or provided a response to our recommendation that suggests that the grantee will likely continue their process as is. These seven recommendations will be referred to LSC management for resolution.

- Recommendation 2: The grantee disagreed with our recommendation and stated that they will continue to quantify and report personal use of the automobiles as personal income on those individual's W-2 as it has been doing since 2013. This practice was not evidenced during our audit.
- Recommendation 6: Although the grantee agreed with the OIG's recommendation, the grantee stated a practice that suggest that the grantee will continue with their process as is. The grantee stated that they believe that additional work that is outside the scope of a contract that is de minimums in nature and is well below the threshold set in the grantee's accounting manual should be allowed without entering into a separate contract. In addition, the grantee stated it feels it is inappropriate to engage in a contracting process that is so stringent it would preclude the grantee from authorizing a small discretionary year-end bonus to their cleaning contractors.
- Recommendation 11: The grantee partially agreed with our recommendation and stated that their balance sheet does not have the capability to use funder codes. The grantee did not provide a corrective action plan that addresses the recommendation to ensure the funding codes to which disbursements are

allocated are coded in the accounting system and included with supporting documentation. The OIG was unable to trace selected disbursements to the general ledger as the funding codes were not assigned in the accounting system, neither were they documented on the supporting documents.

- Recommendations 15: Although the grantee agreed with the OIG's recommendation, the grantee's response and corrective action did not address the OIG's recommendations. The grantee issued a credit card to a non-LSHV employee which is not in compliance with the grantee's or LSC criteria.
- Recommendation 20: The grantee partially agreed with our recommendation and stated that they believe they should retain discretion regarding minor adjustments and whether non-material adjustments require explicit documentation. The corrective action provided suggests that the grantee will continue their process as is.
- Recommendation 22: The grantee partially agreed with our recommendation and stated that they have made it a practice to only issue management reports after a complete and thorough review has been completed rather than tied to a specific time frame. The grantee did not provide an adequate corrective action plan to ensure all management reports are prepared timely after month-end.
- Recommendation 24: The grantee disagreed with our recommendation and stated that they will continue to use best efforts to comply and that, their segregation of duties has been determined adequate by their external auditors, OCE as well as other federal, state, and local auditors and site reviews. The grantee did not provide an adequate correct action plan to address segregation of duties issues over the master vendor list.

## APPENDIX I

### SCOPE AND METHODOLOGY

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

- Contracting;
- Disbursements;
- Credit Cards;
- Cost Allocation;
- Derivative Income;
- General ledger and Financial Controls;
- Management Reporting and Budgeting;
- Fixed Assets;
- Employee Benefits; and,
- Payroll.

The LSC OIG Audit Division evaluated select 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 during the period of April 1, 2017 through March 31, 2019. To obtain an understanding of the internal controls over areas listed above, grantee policies and procedures were reviewed, including manuals and guidelines setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework; management and staff were interviewed as to their knowledge and understanding of the processes in place.

The OIG assessed the reliability of grantee provided computer-generated data in accordance with Government Auditing Standards. Data assessments were performed by conducting interviews, tracing samples to source documents and the general ledger, and by reviewing select accounting system controls. The OIG determined that the computer processed data is reliable and sufficient for the audit objectives.

To review and evaluate internal controls, the OIG performed direct tests, including inquiry, observation, examination and inspection over source documents to determine whether the grantee's internal control system and processes complied to the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide.

A non-statistical sampling methodology was used to select samples for testing. The OIG determined that a non-statistical methodology would be appropriate based on our audit objectives, audit scope, nature of the grantee, and audit timeline. Results cannot be projected to the universe and are not intended to make inferences about the populations from which samples were derived.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of vendor files were reviewed. The sample consisted of 154 disbursement transactions totaling \$1,366,383.

The sample represented approximately 10 percent of the \$13,643,814 disbursed for expenses other than payroll during the period April 1, 2017, to March 31, 2019. To assess the appropriateness of expenditures, invoices and vendor lists were reviewed, then the expenditures were traced to the general ledger. The appropriateness of those expenditures was evaluated based on the grant agreements, applicable laws and regulations, and LSC policy guidance.

In addition to disbursements, the OIG judgmentally selected a sample of 35 credit card transactions totaling \$22,682. The sample represented approximately 8 percent of the \$282,267 disbursed for credit card transactions during the period April 1, 2017, to March 31, 2019. The appropriateness of the expenditures was assessed, and the OIG checked for the existence of approvals and adequate supporting documentation.

Work was conducted at the grantee's administrative office in White Plains, NY and at LSC headquarters in Washington, DC. Documents were reviewed for the audit scope April 1, 2017 through March 31, 2019. The OIG conducted on-site fieldwork for the audit from May 13, 2019 through May 21, 2019. 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.



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January 16, 2020

Ms. Roxanne Caruso  
Assistant Inspector General for Audit  
Office of Inspector General  
Legal Services Corporation  
3333 K Street, N.W., 3<sup>rd</sup> Floor  
Washington, D.C. 20007-3558

Dear Ms. Caruso:

Enclosed is Legal Services of the Hudson Valley's response to the Office of Inspector General's draft audit on Selected Internal Controls at Legal Services of the Hudson Valley.

Responses to the recommendations, including statements about what actions, if any, we plan to take or have already taken to implement recommendations made are laid out in the enclosed document.

Thank you.

Sincerely,

  
Barbara Finkelstein  
Chief Executive Officer

Enclosure

## Response to Audit Findings and Recommendations:

### Vehicles:

LSHV Management was aware supporting documentation is required for the estimates of personal vehicles use and affirmed this awareness to the auditors on several occasions. Our research indicated that a personal attestation by the individual summarizing their personal use of the company automobile was acceptable as supporting documentation for personal use. A detailed log was maintained by one individual requiring a company vehicle and personal attestations were provided by the other two individuals. Review by our external auditor, OCE and other federal, state and local audits and site visits over the past eight years confirmed that this was acceptable documentation.

Personal use of the company vehicles was quantified and stated on W-2's for all staff requiring company vehicles and those individuals paid tax on that income. This practice has also been in place for eight years and has been reviewed by our external auditor, OCE and several other federal, state and local audits and site visits and has been determined to be in compliance with IRS Publication 15-B, Employer's Guide to Fringe Benefits.

Recommendation 1: Logs will be maintained for all individuals requiring company vehicles effective January 1, 2020.

Recommendation 2: LSHV will **continue** to quantify and report personal use of the automobiles as personal income on those individual's W-2 as it has been doing since 2013 and will retain supporting documentation as listed in Recommendation 1 response.

### Contracting:

LSHV has gotten conflicting guidance and interpretation from OCE and OIG regarding compliance with the Fundamental Criteria in LSC's Accounting Guide and LSC Regulations. LSHV has applied our best efforts to comply with guidance that is vague, not specific and open to interpretation. OCE advised that LSHV should modify its policies to limit the amount of a contract that would require bids or approval by the finance committee and retain bids for contracts. LSHV did, in fact, retain contracts for services over a certain threshold and retained documentation of bids and informal quotes. OIG determined that the Fundamental Criteria required a written summary of the decision to select a particular vendor over another which is not explicitly indicated in any of the criteria, guides, or regulations. LSHV did not write up a summary for each decision taken to select each vendor even though bids and correspondence were maintained, and it was clear from the documentation why a particular vendor would have been chosen.

LSHV management never acknowledged that contracts were willfully not maintained or that any contract had been lost. There was one long-standing relationship with a handyman for part-time work that did not have a proper contract even though his rate had not changed in 10+ years and he had worked for the organization for over 20 years. This was an oversight in our serious and diligent attempts to review all our relationships and be in compliance with the Criteria, Guide and Regulations and has since been corrected.

LSHV was not aware of the need to incorporate all LSC requirements into the Accounting Manual as the guidance is vague, not specific and open to interpretation. OCE reviewed our Accounting Manual and recommended several adjustments less than a year ago that LSHV made and implemented into our processes. Those recommendations did not include incorporating all LSC requirements into that

document. Again, LSHV has and will continue to make best efforts to comply with all LSC Criteria, Guidance and Regulations as we understand them.

Recommendation 3: LSHV will continue to comply with this recommendation and has corrected the oversight mentioned previously.

Recommendation 4: LSHV will write a summary of the bidding for contracts over a certain threshold in addition to maintaining the bids and documenting the background even though this is a time-consuming and cumbersome step that is not explicitly stated in any of the guidance. In addition, LSHV will document its decision when bids are not available or are not practical.

Recommendation 5: LSHV will continue to comply with this recommendation.

Recommendation 6: LSHV will continue to comply with this recommendation and believes that additional work that is outside the scope of a contract that is de minimus in nature and is well below the threshold we have set in our accounting manual should be allowed without entering into a separate contract, for example: a few additional hours of work which are charged at the rate specified in the contract. In addition, LSHV feels it is inappropriate to engage in a contracting process that is so stringent it would preclude us from authorizing a small discretionary year-end bonus to cleaning contractors.

Recommendation 7: LSHV has excerpted verbatim LSC language into its accounting manual despite the fact that the guidance does not explicitly require this and in fact explicitly states that the organization has the ability to set its own policies as long as they comply with LSC regulations.

#### Disbursements

##### Lack of Supporting Documentation

LSHV has received conflicting guidance and interpretation regarding compliance with the Fundamental Criteria in LSC's Accounting Guide and LSC Regulations. LSHV's cell phone policy was reviewed less than a year prior by OCE and was found to be in compliance.

LSHV has already addressed the three disbursements which were mentioned under contracting which involved a long-standing relationship with a handyman who LSHV neglected to have a contract on file, this handyman was given a year end bonus without a contract and who worked a few extra hours at his prevailing rate.

##### Approvals

LSHV did have six disbursements that totaled \$13,539 that lacked complete documentation of signatures. LSHV requires every disbursement request to be based on a contract signed by an officer or a request that is signed by a manager. The disbursement is reviewed again by a check signer and in the case of a check over \$3,000, two check signers. In all cases, disbursements were reviewed but may have been missing one step. LSHV makes best efforts to ensure all levels of review are complete and will continue to do so.

##### Disbursements Not Traceable to the General Ledger

All disbursements selected by the OIG were traceable to the ledger and supporting documentation tied back to the ledger. The OIG audit group included staff who did not understand how to navigate the very large amounts of data the group had requested and did not have adequate training to use the very clear

information that was provided by our staff and explained several times at great length. In addition, the auditor examining these expenses which were all capital in nature did not have basic understanding of general ledger accounting software. Our Director of Accounting provided supporting documentation that was very detailed and clear and tied exactly back to every transaction. The Director also took significant time to sit with the auditor and explain each .

#### Lack of Segregation of Duties

LSHV has 1 AP clerk, 1 Payroll person , and 2 Reporting staff for a \$20 Million organization with over 50 funding sources from 11 federal, 24 state, 18 local and at least a dozen private sources which all have different reporting requirements and deadlines. LSC funding comprises approximately 10% of that funding. Each funding source may also have its own requirements for what should be included in our accounting manual and policies and LSHV must comply with all those. Our small size and the significant workload necessitated by the conditions under which we operate limits our ability to segregate various functions and prohibit certain staff from being able to assist and participate in different functions.

Recommendation 8: LSHV will continue to use best efforts to comply.

Recommendation 9: LSHV will continue to use best efforts to comply.

Recommendation 10: LSHV will continue to use best efforts to comply.

Recommendation 11: LSHV will continue to use best efforts to comply. The balance sheet as explained several times to the auditor does not have the capability to use funder codes and the funding source is indicated by the description associated with each item as well as the supporting documentation.

Recommendation 12: LSHV will continue to use best efforts to comply. Our segregation of duties has been determined adequate by our external auditors, OCE as well as several other federal, state and local auditors and site reviews. We continue to evaluate and may solicit an external review by a consultant who specializes in internal controls for very small organizations with similar constraints and reporting burdens.

#### Credit Cards

LSHV has gotten conflicting guidance and interpretation regarding compliance with the Fundamental Criteria in LSC's Accounting Guide and LSC Regulations. LSHV's credit card policy was reviewed less than a year prior by OCE and was found to be in compliance. LSHV believes it should have the prerogative to temporarily change a staff person's expenditures limit for a particular event or expenditure and then subsequently return to the stated limit without changing our entire policy. We have revised the policy to indicate the change requested by the OIG despite the fact that it conflicts with the guidance received by the OCE less than a year ago.

The Home Depot credit card has now been covered by a contract with our handyman.

LSHV uses best efforts to comply with the LSC guidance and our own policies. There were three very minor instances where reviews did not completely adhere to these standards. We will increase our vigilance and attention to these matters. In the case of the Chief executive, the \$70 expense report was not signed by the CFO but it was reviewed and approved by the Chair of the Board.

Recommendation 13: We have updated our Accounting Manual to include policies regarding credit cards which are more specific than the previous policy despite the fact that LSC guidelines do not explicitly state what the policies need to be regarding credit cards and does explicitly state that the grantees have discretion to draft their own policies as long as they comply with the regulations.

Recommendation 14: LSHV will continue to make best efforts to comply with all policies.

Recommendation 15: LSHV has obtained a signed credit card agreement for the handyman mentioned in three sections of this report.

Recommendation 16: LSHV will continue to retain adequate support detailing credit card transactions.

#### Fixed Assets

LSHV has gotten conflicting guidance and interpretation regarding compliance with the Fundamental Criteria in LSC's Accounting Guide and LSC Regulations. OCE reviewed LSHV's fixed asset policy less than a year ago and made recommendations to bring the policy into compliance. Those recommendations conflict with this report.

Recommendation 17: LSHV adjusted our policies and procedures to include language about recording the specific dates of disposal of devices containing sensitive information despite the fact that the guidance does not state this is required.

Recommendation 18: LSHV will include specific information regarding the exact dates of disposal of assets where possible in the inventory listing.

Recommendation 19: LSHV will continue to ensure that all IT equipment is disposed of properly and maintain documentation.

#### Cost Allocation

LSHV is a \$20 Million organization with over 50 funding sources from 11 federal, 24 state, 18 local and at least a dozen private sources which all have different reporting requirements and deadlines. Each funding source may also have its own requirements for what should be included in our accounting manual and policies and LSHV must comply with all those. Our allocation methodology has been tested and reviewed by our external auditor, OCE and several other federal, state and local auditors and site reviews and found to be very robust by all.

Recommendation 20: LSHV will continue to maintain actual cost allocation information for at least 7 years. LSHV will document major adjustments to allocations based on analysis related to major increases and decreases in funding and keep records of these adjustments. LSHV believes it should retain discretion regarding minor adjustments and whether non-material adjustments require explicit documentation.

Recommendation 21: LSHV has reviewed the description of our process in the Accounting Manual and made any necessary adjustments.

#### Management Reporting and Budgeting.

LSHV has made it a practice to only issue management reports after a complete and thorough review has been completed rather than tied to a specific time frame.

Recommendation 22: LSHV will issue management reports within a specific time frame.

#### General Ledger and Financial Controls

LSHV Accounting staff is small in size and the significant workload necessitated by the conditions under which we operate limits our ability to segregate various functions and prohibit certain staff from being available to assist and participate in different functions.

Recommendation 23: LSHV will continue to use best efforts to comply. Our segregation of duties has been determined adequate by our external auditors, OCE as well as other federal, state and local auditors and site reviews. We continue to evaluate and may solicit an external review by a consultant who specializes in internal controls for very small organizations with similar constraints and reporting burdens.

Recommendation 24: LSHV will continue to use best efforts to comply. Our segregation of duties has been determined adequate by our external auditors, OCE as well as other federal, state and local auditors and site reviews. When a request for payment comes in it is either supported by an approved contract or approved request for payment. This documentation is sent on with the printed check for signature. Since a check is always presented with this documentation we feel these are adequate safeguards to allow the the accounts payable clerk to open a new vendor record.

We continue to evaluate and may solicit an external review by a consultant who specializes in internal controls for very small organizations with similar constraints and reporting burdens.

#### Employee Benefits

LSHV has reviewed our cell phone policy and is eliminating all cell phone reimbursements. Two staff members who must be available evenings and week-ends will have accounts on the company's wireless bill.

Recommendation 25: LSHV will include the Student Loan Repayment Assistance Program policy in our Employee Handbook and Accounting Manual.

Recommendation 26: LSHV has strengthened our cell phone reimbursement policy.