



Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660 (p) 202.337.6616 (f)
www.oig.lsc.gov

July 20, 2016

Mr. Sam Buchanan, Jr.
Executive Director
Mississippi Center for Legal Services
111 East Front Street
P.O. Drawer 1728
Hattiesburg, MS 39403-1728

Dear Mr. Buchanan:

Enclosed is the Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Mississippi Center for Legal Services. Your comments are included in the final report as Appendix II.

The OIG considers the proposed actions to address all Recommendations as responsive.

Recommendations 2, 8, 11, and 17 are considered closed as Grantee management has taken immediate resolutions.

The OIG considers the proposed actions to address Recommendations 1, 3, 4, 5, 6, 7, 9, 10, 12, 13, 14, 15 and 16 and revise and update the Accounting Procedural Manual should correct the issues identified in the report. However, all thirteen recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation provided.

Please provide us with your response to close out the remaining thirteen open recommendations along with the revised Accounting Procedural Manual within six months of the date of this final report. We thank you and your staff for your cooperation and look forward to receiving your submission by January of 2017.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings ,
Vice President for Grants Management

Mississippi Center for Legal Services
Michael Adelman, Esq.
Board Chairperson

Sent by E-mail to Board of Directors

Kacey Bailey
Lewis Burke, Esq.
Wesley Curry, Esq.
Robert Gibbs, Esq.
Rekeshia Granderson
Glenda Haynes Esq.
Joe Hudson Esq.
Vanessa Jones, Esq.
Coleman Harris
Alexander Martin, Esq.
Ben Piazza Jr., Esq.
Renee Porter, Esq.
Earlene Singleton
Billy Spiller
Donna Stamps
Karl Steinberger, Esq.
Matthew Thompson
Arthur Walker
Carlos Wilson
Harry Yoste, Esq.

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL
CONTROLS**

MISSISSIPPI CENTER FOR LEGAL SERVICES

RNO 625079

Report No. AU 16-07

July 2016

www.oig.lsc.gov

TABLE OF CONTENTS

INTRODUCTION	1
BACKGROUND	1
OBJECTIVE.....	2
AUDIT FINDINGS.....	2
Disbursements	2
Recommendation 1	3
Recommendation 2	3
Credit Cards	3
Recommendation 3	5
Recommendation 4	5
Recommendation 5	5
Recommendation 6	5
Recommendation 7	5
Contracting	5
Recommendation 8	7
General Ledger and Financial Controls	7
Recommendation 9	8
Recommendation 10	8
Recommendation 11	8
Accounting System	8
Recommendation 12	10
Recommendation 13	10
Recommendation 14	10
Fixed Assets.....	10
Recommendation 15	11
Recommendation 16	11
Management Reporting and Budgeting	11
Recommendation 17	12
SUMMARY OF GRANTEE MANAGEMENT COMMENTS.....	13
OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS.....	13
APPENDIX I – SCOPE AND METHODOLOGY	I-1
APPENDIX II - GRANTEE MANAGEMENT COMMENTS	II-1

INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Mississippi Center for Legal Services (MCLS or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Hattiesburg, MS and at LSC headquarters in Washington, DC.

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

[T]he process put in place, managed and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:

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

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

BACKGROUND

Mississippi Center for Legal Services Corporation (MCLS) is a nonprofit corporation that provides free civil legal assistance to eligible individuals living in 43 counties in Mississippi.

MCLS is primarily funded by the Legal Services Corporation. According to the audited financial statements for year ended 2014, LSC provided 73 percent of the grantee's funding, amounting to \$2,716,329. Other funding comes from the State of Mississippi Supreme Court, the State of Mississippi Attorney General Foreclosure Grant, the Mississippi Dept. of Human Services' Low Income Home Energy Assistance Program (LIHEAP) Grant and other grants.

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. The audit 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.

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, derivative income, employee benefits, payroll, general ledger and financial controls and internal reporting and budgeting. While some of the controls were adequately designed and properly implemented as they relate to specific grantee operations and oversight, many controls need to be strengthened and formalized in writing. The following areas need improvement.

DISBURSEMENTS

OIG review of MCLS' written policies over disbursement transactions found that they are comparable to the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. The OIG selected 82 disbursements comprised of 192 transactions totaling \$145,505.59. It was determined that all disbursements tested were allowable; however, some lacked appropriate approvals and sufficient documentation.

Inadequate Approval

Fifteen disbursements totaling \$28,651.62 were not approved prior to the commitment of resources. In most instances, the Executive Director of Administration approved the requisition for payments one day after the check date. In addition, a disbursement made by check in the amount of \$9,462 was signed by one signatory instead of the required two signatories.

The LSC Accounting Guide for LSC Recipients, Chapter 3, Section 3-5.4(a), states that "Approvals should be required at an appropriate level of management before a commitment of resources is made."

According to the grantee's Accounting Procedures Manual, a requisition for payment should be reviewed and approved by the Executive Director of Administration prior to generating a check. The manual also states that checks over the \$5,000 threshold should have two signatures.

The Executive Director of Administration stated he was unaware that he had approved the payment requisitions after the checks were printed. He also stated that he will ensure

all checks printed by the finance department are done so only after the requisite approvals have been made. He explained that the check over \$5,000 missing two signatures was due to a management oversight.

Failure to obtain prior approval for purchases may result in purchases made without the knowledge of appropriate management or at unacceptable prices or terms.

Insufficient Documentation

Four disbursements totaling \$2,205, related to janitorial services, did not have a contract in place supporting recurring monthly payments within the period in review. This finding and its recommendation have been fully addressed in the contract section of this report.

Recommendations: The Executive Director of Administration should ensure that:

Recommendation 1: approvals for purchases are made by an appropriate level of management prior to commitment of resources; and

Recommendation 2: disbursements over \$5,000 are properly reviewed and approved by two authorized signatories.

CREDIT CARDS

The OIG's review of written policies and procedures over credit cards determined the grantee's policies mostly adhere to LSC's *Fundamental Criteria*; however, the policy did not define a maximum dollar spending limit and approval requirements prior to purchases. The grantee has two credit card accounts and one business line of credit. The OIG reviewed and tested five credit card statements comprised of 33 transactions totaling \$9,688.04. Our review and testing of the grantee's practices over credit cards revealed additional controls that need strengthening.

Written Policies

The grantee's Accounting Procedures Manual does not include in its credit card policies the maximum dollar amount that can be charged before a manager's approval is required. Also, it does not state when approvals are required or the appropriate level of management at which approval is required. The Accounting Guide, Chapter 3-6, *Fraud Prevention* provides guidance for setting up spending limits on credit cards to help prevent fraud.

The Chief Financial Officer (CFO) stated the Sam's Club credit card purchases always require a purchase order which is reviewed and approved by her. American Express cards are assigned to senior management only. The Executive Director of Administration acknowledged the need to update the Accounting Procedures Manual to include spending limits requiring managerial approval on credit card purchases.

Documented credit card spending limits can help prevent fraud or embezzlement of funds. In addition, failure to follow purchase approval processes may result in purchases made without the knowledge of appropriate management or at unacceptable prices or terms.

Lack of Documentation of Purchase Approvals

We noted eleven transactions, totaling \$4,364 that did not have requisite approvals documented. All eleven transactions were related to the purchase of computer equipment on the Dell business line of credit.

The Accounting Guide, Chapter 3, Section 3-5.4(a), states that “Approvals should be required at an appropriate level of management before a commitment of resources is made.”

The Chief Financial Officer (CFO) stated that the Dell business line of credit has no physical card. She asserted that she is the only one who contacts Dell and submits orders after verbal approval from the Executive Director of Administration.

Without adequate documented approval, transactions may be initiated that violate management intentions, or grant restrictions. Purchases made without prior approval could also place the grantee at possible financial and credit risk resulting in higher than necessary costs paid for products and/or services.

Lack of Acknowledgment of Receipt of Credit Card

Acknowledgment of receipt of credit cards was not obtained from the credit card holders. A cardholder’s signed certification of training for the use of an organization’s credit card was not maintained.

The grantee’s Accounting Procedures Manual stipulates that MCLS will provide training to cardholders on charge card management prior to assignment of card. It further states all cardholders must certify they have received the training and understand the regulations and procedures, as well as the consequences for inappropriate use of the credit card.

The CFO stated the policy is active in practice but was unable to provide the OIG with certifications signed by the cardholders. She further stated the grantee does not obtain acknowledgment of receipt of credit cards from credit cardholders.

Without adequate controls, unauthorized transactions that violate grant restrictions or management intentions may be initiated. Unauthorized purchases could place the grantee in possible financial and credit risk resulting in higher than necessary costs paid for products and/or services.

Lack of Documentation of Approval for Issuance of Credit Card

The Executive Director of Administration did not document his approval for issuance of credit cards to staff members.

The Accounting Guide, Chapter 3, Section 3-5.1, states that financial controls shall be established to safeguard program resources.

In discussion with the CFO, she stated the Executive Director of Administration does not document his approval for issuance of credit cards to staff members.

Without adequate controls, transactions may be initiated that violate management intentions.

Inadequate Board Oversight

There is no Board member oversight on the Executive Director of Administration's credit card charges. The Executive Director of Administration reviews and approves all credit card statements, including his own.

The Accounting Guide stipulates approvals must be required at an appropriate level before a commitment of resources is made.

The Executive Director of Administration stated that all his travel expenses and reimbursements are reviewed and approved by the Board Chair; however, he explained that not submitting his credit card statements for Board review was due to a management oversight.

Lack of appropriate level of oversight could result in unauthorized purchases and misappropriation of grantee funds.

Recommendations: The Executive Director of Administration should ensure that:

Recommendation 3: policies and procedures relating to spending limits and approvals for credit card purchases are established and documented in the grantee's Accounting Procedures Manual;

Recommendation 4: requisite approvals on credit card purchases are documented.

Recommendation 5: signed Certification of Training documentation is obtained and retained for all cardholders;

Recommendation 6: approvals authorizing issuance of credit cards to staff members are documented and maintained on file; and

Recommendation 7: written policies are developed and implemented requiring the Executive Director of Administration's credit card transactions to be reviewed and approved periodically preferably, by a member of the Board of Directors.

CONTRACTING

Our review of MCLS's written policies and procedures for contracting determined that their policies adhered to LSC's *Fundamental Criteria*. We reviewed 12 vendors and tested the contracting practice for their services. All documented contracts showed

appropriate approvals; however, there are some areas in which the practices may be improved.

Missing Valid Contracts

We noted five vendors for janitorial contract services did not have an agreement or contract on file for the audit period.

- Four of the five vendors had written contracts in place for the period March 2016 to March 2017; however, there were no documented contracts for the period under review.
- The fifth janitorial vendor had a contract that was signed in 2011; however, it had not been updated to show the current contractual obligation.

The LSC *Fundamental Criteria*, section 3-5.16 requires the statement of work to be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that deliverables are completed.

The CFO stated it was not considered necessary by the grantee to document janitorial contracts; however, now the grantee understands that contracts and agreements have to be documented for all services. The issue has been addressed by acquiring written contracts for all janitorial services starting in March 2016.

Proper documentation helps ensure that approved contracts follow all established procedures and all deliverables are obtained.

Documentation of competitive bids and contract actions

We noted two contracts with no documentation of competitive bids and contract actions.

The LSC *Fundamental Criteria*, 3-5.16 stipulate that all documentation supporting competition and the process used for each contract action should be maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved and maintained in a contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure they are complete.

The CFO and the Executive Director of Administration stated that, although they did not maintain supporting documentation, the grantee's general practice is to select the lowest bidder and therefore, they never retain proof of competitive bids. The Executive Director of Administration also stated if the grantee decided to go with another bidder who did not necessarily have the lowest bid, they would document the process and reasoning. The CFO added they did not maintain documentation of contract action because it was not considered necessary.

Competition helps ensure the best value for grantees and retaining documentation of the bidding process will establish that the grantee has received the best value and price. Proper documentation helps ensure the approved document has followed all established procedures.

Recommendation 8: The Executive Director of Administration should ensure contracting procedures adhere to LSC's *Fundamental Criteria*, specifically:

- a. all contracts and agreements for products and services are documented and maintained in a central file;
- b. contracts are reviewed periodically to ensure the written terms are current; and,
- c. all documentation pertaining to contract actions, including solicitation of competitive bids and selection process of vendors, must be documented and retained.

GENERAL LEDGER AND FINANCIAL CONTROLS

The OIG reviewed the grantee's written policies and procedures for the general ledger and other financial controls and determined that they mostly adhered to the guidelines set forth in the LSC Accounting Guide. However, the grantee's manual does not have policies and procedures related to outstanding checks. Our review of the grantee's procedures included selecting bank statements and reviewing them for completion, supervisory reviews and controls for outstanding checks. We noted some areas in which the grantees practices may be improved.

Outstanding Checks

The grantee's Accounting Procedures Manual does not have policies and procedures in place to govern the duration of time for outstanding checks.

The Accounting Guide for LSC Recipients, Section 3-4 requires each grantee to develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*.

The CFO stated she was not aware that the outstanding checks practice was not documented in the grantee's Accounting Procedures Manual.

Without detailed written policies and procedures, there could be a lack of transparency and consistency in the application of the reconciliation process, especially in cases of staff turnover.

In addition, the grantee's practice over outstanding checks was inadequate. The grantee needs to strengthen its controls over outstanding checks. Three bank statements were reviewed to determine the duration of outstanding checks. The review determined that a total of 43 checks were outstanding for more than 90 days.

According to the CFO, the grantee follows a 90-day outstanding check policy where checks outstanding for more than 90 days must be resolved. Although the Accounting Guide's timeframe for outstanding checks to be resolved is 180 days, we still noted that 38 checks were outstanding for more than 180 days.

The CFO stated she has been slow in following up on outstanding checks; however, now that the grantee has hired a new part time accounting clerk to help with some of the

accounting work, the CFO will have more time to follow up on outstanding checks and resolve them.

Outstanding checks present a lack of adequate control over financial transactions and increase the likelihood that irregular transactions will go undetected and accountability of funds may be lost.

Review and Approval of Bank Reconciliations

We selected six bank statements for the audit period under review and reviewed the bank reconciliation statements for completeness and supervisory review. While the statements were prepared in a timely manner, we noted issues with the approvals.

We were unable to determine if four of the bank reconciliations were reviewed and approved as they did not have the initials of the reviewer and date of review.

LSC *Fundamental Criteria*, section 3-5.2(d) stipulates that reconciliations should be reviewed and approved by a responsible individual. This review should be appropriately documented by signature and date.

In addition, the grantee's Accounting Procedures Manual stipulates that reconciliations should be reviewed and approved by the Executive Director of Administration on a monthly basis.

The CFO stated that the missing reviewer initials and date may have occurred due to poor oversight. She also stated that the grantee will take action to make sure that all bank reconciliations are reviewed, signed and dated.

Proper reconciliation procedures including documented reviews and approvals will substantially increase the likelihood of discovering irregular disbursements and recording errors on a timely basis.

Recommendations: The Executive Director of Administration should ensure that:

Recommendation 9: policies and procedures for resolving outstanding checks are documented in the grantee's Accounting Procedures Manual and incorporate requirements set forth by LSC's Accounting Guide, Appendix II, *Bank Reconciliation Procedures*;

Recommendation 10: checks that are outstanding for more than 90 days are reviewed and resolved in a timely manner; and

Recommendation 11: review and approval of bank reconciliations are appropriately documented with a signature and date.

ACCOUNTING SYSTEM

The OIG reviewed the grantee's system-generated user rights that list staff access to various functions in the accounting system. We noted that user access rights reflected

inadequate segregation of duties within payroll and disbursement components. We also noted that a part-time employee, who does not have a user account, has access to the accounting system.

Segregation of Duties

Within the payroll function, the Accounts Payable/Payroll Specialist (APPS) has system access to employee file maintenance, employee deletion, timecard entry, manual check processing, payroll calculation, payroll check printing and inactive record deletion. The APPS also has user rights for setting up new employees in the system, adding payroll information, as well as time and attendance entries.

In addition, the APPS has system assignments within disbursement functions that do not reflect proper segregation of duties. The APPS can add, edit and delete vendors and is also involved in the invoice posting and check processing functions.

The Accounting Guide identifies segregation of duties as a significant component of an adequate internal control structure. 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 duties should also be segregated to ensure that no individual has both physical control and record keeping responsibilities for any asset, including, but not limited to cash, client deposits, supplies and property.

The CFO explained that although the APPS has user rights to employee records maintenance, only the CFO performs the employee maintenance function. The CFO also stated that she has discussed the issue of user rights with SAGE (Accounting System) software support and they indicated that controls would be strengthened with the upcoming accounting system upgrade. The CFO also stated the APPS has been given additional access to add new vendors to the system to serve as backup to the CFO. The CFO is primarily responsible for entering new vendors into the system.

Lack of segregation of payroll duties provides opportunity for fraud to occur and go undetected. Persons having dual responsibilities like records maintenance and check disbursements have increased chances of being involved in fraudulent activities that may go undetected. Within the disbursements function, this could lead to setting up fictitious vendors and/or address changes resulting in payments sent to incorrect locations.

Inadequate Access Controls

The part-time Accounting Clerk does not have access to the accounting system via an individualized user name and password nor does she have her own user account. The part-time accounting clerk has the CFO and/or the APPS log into their own account at the part-time accounting clerk's computer and closely monitor her work.

LSC's *Fundamental Criteria* provides that each grantee must develop security controls that provide assurances that computers and the data they contain are properly protected against theft, loss, unauthorized access, and natural disaster.

The CFO stated that the Accounting Clerk works part-time and performs very little work within the grantee's accounting system; therefore, grantee management did not deem it necessary to assign her separate user access.

Without adequate security controls over computers and the data they contain, changes may be made that cannot be attributed to the transaction originator.

Recommendation: The Executive Director of Administration should ensure:

Recommendation 12: user access to the grantee's payroll system is properly controlled such that user capabilities are adequately segregated;

Recommendation 13: duties of maintaining master vendor list and processing payments to vendors are adequately segregated; and

Recommendation 14: each individual using the financial management system has their own separate, assigned user access rights to the system.

FIXED ASSETS

The OIG reviewed the controls over fixed assets and determined that the grantee has written policies and procedures in accordance with LSC's *Fundamental Criteria*; however, in practice, they do not follow their policies regarding performing timely inventory and updating fixed asset records.

Timely Inventory Not Performed

The grantee does not perform an inventory count every year as stated in the MCLS Accounting Procedures Manual. The last inventory was performed in 2013.

The LSC Accounting Guide, Section 2-2.4 states that a physical inventory should be taken and the results reconciled with property records at least once every two years. The MCLS Accounting Procedures Manual establishes that equipment, furniture and library records are updated quarterly and an inventory is taken at least once a year.

The CFO stated she was not aware of the documented policy in the grantee's Accounting Procedures Manual which states that inventory should be performed every year. She specified that the grantee's practice is to conduct a physical inventory when there is a high volume of purchases or disposals of fixed assets. She also stated that a physical count is scheduled for 2016.

Failure to maintain adequate property and inventory records may result in the inability to fully account for the assets purchased and support reconciliations so that property asset balances are accurate. In addition, failure to conduct timely inventory reviews also subjects the grantee to potential loss of assets going undetected for long periods of time.

Fixed Asset Records Not Updated

The asset register is not updated to fully reflect all disposals and/or retirements of assets. Some assets that were physically present and actively used at the Hattiesburg office did not appear on the asset register.

The LSC Accounting Guide, Section 2-2.4, sets forth that any differences between quantities determined by physical inspection and those shown in the accounting records shall be investigated to determine the causes of difference, and the accounting records should be reconciled to the results of the physical inventory with an appropriate note included in the financial statements.

The CFO stated they have been lax in keeping some records up-to-date. She stated that they are in the process of updating the asset register.

Incomplete property and equipment recordkeeping can result in the loss of grantee resources.

Recommendations: The Executive Director of Administration should ensure that:

Recommendation 15: a physical inventory, at a minimum, is performed every two years in accordance with LSC guidelines. In addition, the MCLS Accounting Procedures Manual should be updated to reflect actual practice and the staff should be familiarized with the contents of the manual; and

Recommendation 16: fixed asset records accurately detail fixed assets currently in use by the grantee and are updated regularly to reflect all purchases, disposals and retirements.

MANAGEMENT REPORTING AND BUDGETING

Our review of written policies relating to management reporting and budgeting determined that they adhered to LSC's *Fundamental Criteria*. However, the grantee's practices revealed some areas that require improvement within their report preparation.

Although the grantee's management and reporting practices appear mostly comparable to LSC guidelines, we determined that cumulative comparisons of total actual revenue and expenses compared to total budgeted revenue and expenses were not consistently prepared by the grantee as required by LSC's *Fundamental Criteria* and as documented in the grantee's own Accounting Procedures Manual.

Section 3-5.9 of the Accounting Guide requires a cumulative comparison of actual income and expenses against total budgeted income and expenses to be prepared. Variances, both over and under, should be identified on the face of the report.

The MCLS Accounting Procedures Manual establishes that a cumulative comparison of the total revenue and expenses against total budgeted revenue and expenses be

prepared and that the financial reports be reconciled and reviewed by the fifteenth day of the following month.

The CFO stated that most Board members have the original budget with them during meetings and compare the original budgets with the income and expense reports provided to them. According to her, it was decided during the last Finance Committee meeting that the CFO should prepare a budget versus actual report to provide a better comparison of the financial status.

The absence of these reports may not provide for adequate comparisons and may allow budgetary problems to go unnoticed.

Recommendation 17: The Executive Director of Administration should ensure that cumulative comparisons of actual revenue and expenses against total budgeted revenue and expenses are prepared consistently as required by LSC's *Fundamental Criteria* to provide a better comparison of financial status.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

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

- They have updated their policies and procedures related to requisition approvals and check printing;
- They will establish policies related to spending limits and credit card charges;
- They have developed a form to fully document approvals on credit card purchases and other credit accounts;
- Signed Certification of Training have been obtained and retained for all card holders;
- Approval authorizing issuance of credit cards has been documented and filed;
- They have implemented a policy that requires the Executive Director's credit card transactions to be reviewed and approved by a Board member;
- They will ensure that contracts are current and documented, including competitive bids and selection process of vendors;
- They plan on updating policies to require that all outstanding checks over ninety days are investigated and decisions made on the outcome;
- They are working with the software vendor to segregate users' access to the system;
- They will update their Accounting Procedural Manual to require an inventory every two years. They are also developing an equipment action form to track purchases, disposal and retirements; and,
- They have implemented procedures to consistently prepare budget comparison reports.

The Grantee's comments are included in Appendix II.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENT

The OIG considers the proposed actions to address all Recommendations as responsive.

Recommendations 2, 8, 11, and 17 are considered closed as Grantee management has taken immediate resolutions.

The OIG considers the proposed actions to address Recommendations 1, 3, 4, 5, 6, 7, 9, 10, 12, 13, 14, 15 and 16 and revise and update the Accounting Procedural Manual should correct the issues identified in the report. However, all thirteen recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation provided.

APPENDIX I

SCOPE AND METHODOLOGY

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

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

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 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 87 disbursements consisting of 225 transactions totaling \$155,193.63. The sample represented approximately 9 percent of the \$1,671,491.77 disbursed for expenses other than payroll during the period January 1, 2015 to February 29, 2016. To assess the appropriateness of expenditures, we reviewed invoices and vendor lists, then 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.

Included in the disbursement sample were five credit card statements, comprising 33 transactions, totaling \$9,688.04. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

To evaluate and test internal controls over the employee benefits, payroll, credit card use, contracting, internal management reporting and budgeting, general ledger and financial controls, as well as property and equipment, we interviewed appropriate program personnel, examined related policies and procedures as applicable and selected specific transactions to review for adequacy.

To evaluate the adequacy of the cost allocation process, we discussed the cost allocation process with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We reviewed selected transactions to determine if the amounts allocated were in conformity with the documented MCLS allocation process and if the transactions were properly allocated in the accounting system.

Controls over derivative income were reviewed by examining current grantee practices in comparison with LSC regulations and policies outlined in the LSC Accounting Guide.

The on-site fieldwork was conducted from March 15, 2016 through March 22, 2016. Our work was conducted at the grantee's central administrative office in Hattiesburg, MS and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2015 through February 29, 2016.

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.

MISSISSIPPI CENTER FOR LEGAL SERVICES CORPORATION

serving 43 counties



"Equal Justice For All"

July 11, 2016

 Administrative & Hattiesburg Office

111 East Front Street (39401)
 Post Office Drawer 1728
 Hattiesburg, MS 39403-1728
 (601) 545-2950
 (800) 773-1737
 Fax: (601) 545-2935

Mr. John M. Sheeba
 Assistant Inspector General for Audit
 Office of the Inspector General
 Legal Services Corporation
 3333 K Street, NW, 3rd Floor
 Washington, D. C. 20007-3558

 Gulfport Office

520 E. Pass Road, Suite J (39506)
 Post Office Box 8691
 Gulfport, MS 39507
 (228) 896-9148
 (877) 664-0238
 Fax: (228) 896-9345

Re: Recipient No. 625071
 Response to OIG Draft Audit Report

Dear Mr. Sheeba:

I have attached Mississippi Center for Legal Services' Response to OIG draft report on the results of your audit on Selected Internal Controls at Mississippi Center for Legal Services.

Please let me know if additional information is needed.

Sincerely,

Sam H. Buchanan, Jr.
 Executive Director Administration

Attachment

 McComb Office

221 Main Street (39648)
 Post Office Box 575
 McComb, MS 39649-0575
 (601) 684-0578
 (800) 898-0985
 Fax: (601) 684-0575

 Meridian Office

2305 Fifth Street
 2nd Floor (39302)
 Post Office Box 1931
 Meridian, MS 39302-1931
 (601) 693-5470
 (888) 631-9161
 Fax: (601) 693-5473

RESPONSES TO THE OIG FINDINGS

FINDINGS

DISBURSEMENTS

Some disbursements lacked appropriate approvals and sufficient documentation.

Inadequate Approval

The Executive Director of Administration approved the requisition for payments one day after the check date. In addition, a disbursement made by check in the amount of \$9,462 was signed by one signatory instead of the required two signatories.

Insufficient Documentation

Four disbursements totaling \$2,205, related to janitorial services, did not have a contract in place supporting recurring monthly payments within the period in review.

Recommendation 1: approvals for purchases are made by an appropriate level of management prior to commitment of resources;

Recommendation 2: disbursements over \$5,000 are properly reviewed and approved by two authorized signatories.

Comment:

No checks were issued for payment without approval by the Executive Director of Administration, although some requisitions were approved after date check printed. The Accounting Procedures Manual now requires that the requisitions be completely processed before the printing of checks. The amendment will be presented to the Board of Directors for approval at its next scheduled meeting.

The Executive Director of Administration will ensure that requisitions are approved before the checks are printed. He also will ensure that checks over \$5,000 are signed by two signatures as required in the MCLSC Accounting Procedures Manual.

A contract for janitorial services has been put in place supporting recurring monthly payments for all janitorial services.

CREDIT CARDS

Written Policies

The grantee's Accounting Procedures Manual does not include in its credit card policies the maximum dollar amount that can be charged before a manager's approval is required. Also, it does not state when approvals are required or the appropriate level of management at which approval is required. The Accounting Guide, Chapter 3-6, *Fraud*

Prevention provides guidance for setting up spending limits on credit cards to help prevent fraud.

Lack of Documentation of Purchase Approvals

We noted eleven transactions, totaling \$4,364 that did not have requisite approvals documented. All eleven transactions were related to the purchase of computer equipment on the Dell business line of credit.

Lack of Acknowledgment of Receipt of Credit Card

Acknowledgment of receipt of credit cards was not obtained from the credit card holders. A cardholder's signed certification of training for the use of an organization's credit card was not maintained.

Lack of Documentation of Approval for Issuance of Credit Card

The Executive Director of Administration did not document his approval for issuance of credit cards to staff members.

Inadequate Board Oversight

There is no Board member oversight on the Executive Director of Administration's credit card charges. The Executive Director of Administration reviews and approves all credit card statements, including his own.

Recommendation 3: policies and procedures relating to spending limits and approvals for credit card purchases are established and documented in the grantee's Accounting Procedures Manual:

Comment:

Approval was granted on Dell purchases, although not fully documented as indicated. We will ensure that documentation is noted going forward.

Policies and procedures relating to spending limits and credit card charges will be established and documented in the Accounting Procedures Manual. The amendment will be presented to the Board for approval at its next scheduled meeting.

Recommendation 4: requisite approvals on credit card purchases are documented.

Comment:

We will ensure that the recommended requisite approval on credit card purchases, are documented. A form has been developed to fully document approval on credit card purchases and to document approval on purchases on accounts for which there is no physical credit card, i.e. Dell account. This form will document requisite approval authority for purchases and spending limits.

Recommendation 5: signed Certification of Training documentation is obtained and retained for all cardholders;

Comment:

A signed Certification of Training has been obtained and will be retained for all card holders.

Recommendation 6: approvals authorizing issuance of credit cards to staff members are documented and maintained on file.

Comment:

Approval authorizing issuance of credit cards to staff members has been documented and will be maintained on file.

Recommendation 7: written policies are developed and implemented requiring the Executive Director of Administration's credit card transactions to be reviewed and approved periodically preferably, by a member of the Board of Directors.

Comment:

A policy has been implemented that requires that credit card transactions of the Executive Director of Administration be reviewed and approved by a member of the Board of Directors. The policy will be presented to the Board for approval at its next scheduled meeting.

MCLSC has begun submitting credit card transactions of the Executive Director of Administration to the Board Chair for periodic review and approval.

CONTRACTING

Missing Valid Contracts

We noted five vendors for janitorial contract services did not have an agreement or contract on file for the audit period.

Documentation of competitive bids and contract actions

We noted two contracts with no documentation of competitive bids and contract actions.

The LSC *Fundamental Criteria*, 3-5.16 stipulate that all documentation supporting competition and the process used for each contract action should be maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved and maintained in a contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure they are complete.

Recommendation 8: The Executive Director of Administration should ensure contracting procedures adhere to LSC's *Fundamental Criteria*, specifically:

- a. all contracts and agreements for products and services are documented and maintained in a central file;
- b. contracts are reviewed periodically to ensure the written terms are current; and,
- c. all documentation pertaining to contract actions, including solicitation of competitive bids and selection process of vendors, must be documented and retained.

Comment:

Four janitorial vendors did not have a contract on file for the audit period. Currently, there are contracts on file for all janitorial services. MCLSC maintains a central file for contracts and agreements. MCLSC will conduct periodic reviews of contract files to ensure that all contracts and agreements for products and services are documented and maintained in the files. We will also ensure that contracts are current and documented, including competitive bids and selection process of vendors. These files will be maintained as required by the record retention policy.

GENERAL LEDGER AND FINANCIAL CONTROLS

Outstanding Checks

The grantee's Accounting Procedures Manual does not have policies and procedures in place to govern the duration of time for outstanding checks.

Review and Approval of Bank Reconciliations

We were unable to determine if four of the bank reconciliations were reviewed and approved as they did not have the initials of the reviewer and date of review.

In addition, the grantee's Accounting Procedures Manual stipulates that reconciliations should be reviewed and approved by the Executive Director of Administration on a monthly basis.

Recommendations: The Executive Director of Administration should ensure that:

Recommendation 9: policies and procedures for resolving outstanding checks are documented in the grantee's Accounting Procedures Manual and incorporate requirements set forth by LSC's Accounting Guide, Appendix II, *Bank Reconciliation Procedures*;

Recommendation 10: checks that are outstanding for more than 90 days are reviewed and resolved in a timely manner; and

Recommendation 11: review and approval of bank reconciliations are appropriately

documented with a signature and date.

Comment:

The MCLSC Accounting Procedures Manual will be changed to require that all outstanding checks over ninety (90) days old shall be investigated, and a decision shall be made as to whether it should be voided. Any exceptions should be documented on the bank reconciliation. The amendment will be presented to Board of Directors for approval at its next scheduled meeting.

We believe that the procedure for review and approval of bank reconciliations was implemented. We will ensure that the files reflect that the procedures are documented going forward, including ensuring bank statements are reviewed, initialed and/or signed.

ACCOUNTING SYSTEM

We noted that user access rights reflected inadequate segregation of duties within payroll and disbursement components. We also noted that a part-time employee, who does not have a user account, has access to the accounting system.

Segregation of Duties

The Accounts Payable/Payroll Specialist (APPS) has system access to all systems of accounts payable and payroll. This raises segregation of duties issues.

Inadequate Access Controls

The part-time Accounting Clerk does not have access to the accounting system via an individualized user name and password nor does she have her own user account.

Recommendation 12: user access to the grantee's payroll system is properly controlled such that user capabilities are adequately segregated;

Comments:

The part-time accounting clerk did not have access to accounting system during audit period.

We are working with our software vendor to segregate the access of the Accounts Payable/Payroll Specialist (APPS) (employee) as to her ability to enter new employees, time and attendance, and print payroll checks.

Recommendation 13: duties of maintaining master vendor list and processing payments to vendors are adequately segregated;

Comments:

We are working with our software vendor to segregate the access of the APPS (employee) as to her ability to enter new vendors, invoices, and print payroll checks.

Recommendation 14: each individual using the financial management system has their own separate, assigned user access rights to the system.

Comments:

All employees with access to the financial management system now and in the future, will have their own user account and rights.

FIXED ASSETS**Timely Inventory Not Performed**

The grantee does not perform an inventory count every year as stated in the MCLS Accounting Procedures Manual. The last inventory was performed in 2013.

Fixed Asset Records Not Updated

The asset register is not updated to fully reflect all disposals and/or retirements of assets. Some assets that were physically present and actively used at the Hattiesburg office did not appear on the asset register.

Recommendation 15: a physical inventory, at a minimum, is performed every two years in accordance with LSC guidelines. In addition, the MCLS Accounting Procedures Manual should be updated to reflect actual practice and the staff should be familiarized with the contents of the manual; and

Comments:

The Accounting Procedures Manual will be changed to require an inventory every two (2) years in accordance with LSC guidelines and practices. This is due to the growth and size of the agency. Staff will be familiarized with the contents of the manual. The change will be presented to the Board for approval at its next scheduled meeting.

Recommendation 16: fixed asset records accurately detail fixed assets currently in use by the grantee and are updated regularly to reflect all purchases, disposals and retirements.

Comments:

The Accounting Procedures Manual will be changed to require an inventory every 2 (two) years. This is due to the growth and size of the agency. We are developing an

equipment action form which will be included in the Accounting Procedures Manual which will track purchases, disposals and retirements. The change will be presented to Board of Directors for approval at its next scheduled meeting.

MANAGEMENT REPORTING AND BUDGETING

We determined that cumulative comparisons of total actual revenue and expenses compared to total budgeted revenue and expenses were not consistently prepared by the grantee as required by LSC's *Fundamental Criteria* and as documented in the grantee's own Accounting Procedures Manual.

Recommendation 17: The Executive Director of Administration should ensure that cumulative comparisons of actual revenue and expenses against total budgeted revenue and expenses are prepared consistently as required by LSC's *Fundamental Criteria* to provide a better comparison of financial status.

Comment:

The recommended change was implemented in April.

We will consistently prepare the budget comparison reports going forward as indicated in section 3-5.9 of the Accounting Guide which requires a cumulative comparison of actual income and expenses against total budgeted income and expenses which includes variances, both over and under, identified on the face of the report.