



Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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MEMORANDUM

To: Lora Rath, Acting Director
Office of Compliance and Enforcement

From: Jeffrey E. Schanz 
Inspector General

Date: July 20, 2012

Subject: Examination of Expenditures Incurred for the Performance of TIG Grants Awarded to Legal Services of Southern Missouri

The attached is our audit report on expenditures of \$124,383 reported by Legal Services of Southern Missouri (LSSM) for the performance of TIG grant 07281. The OIG concluded that \$3,659 of expenditures did not have adequate documentation as required by TIG grant assurances.

TIG grant assurances reference LSC regulations and guidelines that describe documentation requirements for supporting costs. The accurate determination of TIG project costs is important since TIG grant assurances also require that funds provided in excess of project costs be returned to LSC or reprogrammed to other projects with the approval of LSC.

LSSM's written response to the OIG results stated, among other things, that contemporaneous time records were kept and that the actual project cost exceeded the amount charged to TIG grant 07281. The OIG reviewed the additional supporting documentation provided with LSSM's written response but continues to consider the cost to be questioned.

The report includes a questioned cost referral to the Office of Compliance and Enforcement. Please contact Ronald Merryman at (202) 295-1663 or via e-mail at RM@oig.lsc.gov if you have any questions.

Attachment

cc: James Sandman, President
Janet LaBella, Director, Office of Program Performance
Douglas Kays, LSSM Executive Director

**Examination of Expenditures Incurred for the Performance
of TIG Grants awarded to Legal Services of Southern Missouri**
RNO: 526051
Report No. AU 12-05

The Legal Services Corporation (LSC) Office of Inspector General (OIG) conducted an examination of expenditures incurred for the performance of the Technology Initiative Grant (TIG grant) awarded to the Legal Services of Southern Missouri (LSSM). The objectives of the examination were to determine whether the TIG grant expenditures for TIG grant 07281 were allowable and whether the stated purpose of the TIG grant was achieved. The examination's background and its scope and methodology are discussed in Appendix I.

RESULTS

The OIG concluded that the stated purpose of TIG grant 07281 appeared to have been met. However, the OIG also concluded that \$3,659 of personnel expenditures were not supported by adequate documentation and are thereby considered questioned costs. OIG conclusions are based on a review of applicable LSSM books, records, internal controls, TIG grant assurances and requirements, applicable regulations and guidance, and OMB Circular A-122, Cost Principles for Nonprofit Organizations.

The following chart lists the expenditures for TIG grant 07281, by budget category, as reported to the OIG by LSSM on July 6, 2011. The chart also includes the amounts questioned by the OIG for each budget category.

Line-Item	TIG Expenditures (Claim)	Questioned Costs
Personnel	\$9,998	\$3,659
Space Cost (rent/lease)	\$9,049	
Equipment (Purchase)	\$50,323	
Telecommunications		
Bandwidth Charges	\$55,013	
Total All	\$124,383	\$3,659

Labor distribution records maintained by LSSM on TIG grant 07281 only supported \$6,339 of the \$9,998 reported by LSSM to the OIG as personnel expenditures for TIG grant 07281. According to the LSSM Director of Administration, the amount reported to the OIG as personnel costs was based on the amount included in the approved budget for TIG grant 07281 and not on labor distribution records because LSSM received all of the funds for this grant based on achievement of milestones.

During our audit, LSSM provided labor distribution records that showed the amount of time charged to tasks related to TIG grant 07281 for the individual who worked on the project. Our analysis of these records revealed that only \$6,339 of labor costs were actually supported by time charges. Consequently, the OIG questions \$3,339 (the difference between \$9,998 in personnel costs reported and the \$6,339 of personnel costs supported by labor distribution records) as unsupported costs and, pursuant to 45 CFR Part 1630, is referring these costs to LSC management for review and action.

TIG grant assurances for the LSSM TIG grants require that LSC rules, regulations, guidelines and directives are followed. Pursuant to LSC regulations, 45 C.F.R 1630.3 (d), Salary and Wages charged directly to Corporation grants and contracts must be supported by personnel activity reports. Guidance provided in the Accounting Guide for LSC Recipients indicates that labor hours distributed to projects, contracts, and grants are based on time distribution records that identify the total time actually spent by all individuals who charge time directly to projects, contracts, and grants. Lastly, OMB Circular A-122, Cost Principles for Nonprofit Organizations, which is referenced in the LSC regulations, states that the distribution of salaries and wages to awards must be supported by personnel activity reports.

GRANTEE COMMENTS

The OIG provided LSSM a written draft of its review results on May 30, 2012. LSSM's written response is included in Appendix II and summarized below.

LSSM provided comments on the questioned cost finding of unsupported personnel costs of the IT Director. LSSM indicated that the IT Director did contemporaneously

keep time but did not enter his time under a separate funding code for this TIG grant. LSSM further indicated that the IT Director kept notes outlining his activities on the grant and LSSM provided a calculation of the IT Director's time spent on the TIG grant supported by an attached excel spreadsheet with the notes.

OIG EVALUATION OF GRANTEE COMMENTS

Regarding the LSSM calculation of the IT Director's time spent on the project based on an analysis of notes kept by the IT Director, the OIG has reviewed the analysis and continues to consider the costs to be questioned for the following reasons:

- LSC regulation 45 CFR 1630.3 [*Standards governing allowability of costs under Corporation grants or contracts*] indicates, among other things, that expenditures under the recipient's grant or contract are allowable only if the recipient can demonstrate that the cost was adequately and contemporaneously documented.
- The questioned personnel costs of \$3,659 were not supported by adequate and contemporaneous documentation. The IT Director's notes provided by LSSM as support for the questioned costs, while contemporaneous, did not clearly identify that the described activities were related to the TIG grant and therefore they were not considered to be adequate documentation. Alternatively, the IT Director's notes provided for \$6,339 in personnel costs did clearly describe actions related to the TIG grant and the costs were considered to be adequately and contemporaneously documented and therefore allowable charges to the TIG grant.
- LSSM's analysis during the time of the audit of the IT Director's notes was not contemporaneous and was not performed by the person who made the notes (the IT Director is no longer employed by LSSM). Consequently, the OIG did not consider this analysis (as it related to the IT Director's notes that did not clearly describe TIG activities) to be adequate and contemporaneous documentation.

CONCLUSION AND RECOMMENDATION

TIG grantees are required to return funds provided in excess of project costs or seek approval for reprogramming the funds. Without TIG grantees maintaining the required records on actual program costs, they cannot comply with the requirement. During the audit, LSSM has reported that it has now modified its activity report to track employees' direct time on grants. For TIG grant 07281, the OIG could not verify that personnel costs in the amount of \$3,659 were actually expended on the TIG grant, and therefore considers them questioned costs.

This report contains no recommendations requiring LSC management response. LSC current regulations state the requirement to maintain adequate records of expenditures

of LSC funds. For fiscal years 2010 and 2011, LSC has instructed TIG recipients to submit final actual expenditures on the project and to consult LSC's Accounting Guide for LSC Recipients, 2010 Edition, for guidance on financial accounting and reporting standards. Through this report, the OIG is referring \$3,659 of questioned costs to the Office of Compliance and Enforcement for review in accordance with 45 C.F.R. § 1630.7.

APPENDIX I

BACKGROUND

During an audit of LSC Headquarters' management of the TIG program, the OIG noted that although LSC required TIG recipients to provide periodic reports about the grants, LSC did not normally maintain information on the actual expenditures incurred in performing the TIG grants. As a result, the OIG planned audits of individual TIG grants to examine expenditures incurred in performing the grants.

The OIG requested specific financial information from recipients on all terminated TIG grants, regardless of termination date, as well as all TIG grants that were completed during the period January 1, 2009 through March 31, 2011. All TIG recipients reported grant expenditures by budget line item. LSSM reported expenditures for one terminated and one closed TIG grants: 01088 and 07281, respectively. However, the supporting documentation for TIG grant 01088 was disposed of in accordance with LSSM's record retention policy, and therefore was not available for review. We only reviewed TIG grant 07281. The total expenditures for TIG grant 07281 were \$124,383.

TIG grant 07281 was awarded in the amount of \$124,383 to convert LSSM's network and computing environment to a completely terminal server based environment for its six offices.

SCOPE AND METHODOLOGY

The audit was conducted in accordance with Government Auditing Standards for an examination-level attestation engagement. As such the audit examined evidence supporting the grantee's compliance with grant provisions related to expenditures, obtained an understanding of internal controls that were material to the grantee's compliance with the terms and conditions of the grant, and performed other procedures necessary to evaluate the grants. The review was limited in scope and not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations or compliance with LSC regulations.

To accomplish the objectives of the examination the following steps were performed:

- The appropriateness of expenditures and the existence of adequate supporting documentation were reviewed for TIG grant 07281. Since there were few expenditures for this TIG grant, we reviewed 100 percent of the expenditures. To assess the appropriateness of grantee expenditures, we reviewed invoices, contracts, and employee time records. The appropriateness of grantee expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.
- Internal controls over personnel and contracting expenses were reviewed and tested, which included a review of relevant grantee policies and procedures. Grantee officials were interviewed to obtain an understanding of the internal control framework, and grantee management and staff were interviewed as to their knowledge and understanding of the processes in place.
- To determine whether the stated purpose of the TIG grant was achieved, we held discussions with grantee staff and received demonstrations on grant outcomes.

APPENDIX II



LSSM
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June 6, 2012

Richard Adkins, Audit Team Leader
Office of Inspector General
Legal Services Corporation
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Dear Mr. Adkins:

Pursuant to your letter dated May 30, 2012, concerning your office findings on TIG 07281 - LSSM would like to submit the following comments. Our comments are concerning your question cost findings of unsupported costs of \$3,659 in personnel cost expenditures.

LSSM set up and charged the IT Director's salary to the grant as follows: \$9,998/12 months or \$833 per month. However, the IT Director did keep contemporaneously time on this grant in our computerized timekeeping program. The IT Director did not enter his time under a separate funding code for this grant. He entered all of his time under our overall Legal Services Corporation funding code. Also, he provided notes outlining his activities on the grant.

LSSM records show that the TIG was approved on September 27, 2007. The IT Director entered time on TIG grant activities from September 28, 2007 until November 26, 2008. (See attached excel sheet printout from the Prime timekeeping software) Our records indicate that the IT Director spent 365 hours on this project at a total cost of \$11,767. Our records show that the IT Director time is documented at \$1,769 higher than the budget for this project.

If you need any further information, please let us know.

Sincerely,

Douglas B. Kays
Executive Director