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Legal Services Corporation

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September 30, 2015

Mr. Joe Oelkers
Executive Director
Acadiana Legal Services Corporation
1020 Surrey Street
Lafayette, LA 70501

Dear Mr. Oelkers:

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

The OIG considers grantee actions taken or planned as responsive to all 11 of the recommendations. Recommendations 4, 5, 6, 7, 8, 9, 10 and 11 are still considered open until the OIG is notified in writing that the planned actions have been completed and implemented. Recommendations 1, 2 and 3 are considered closed.

We thank you and your staff for your cooperation and assistance.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

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

LSC
America's Partner For Equal Justice

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Board Chairperson

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Mr. Beatrice Sonnier
Mr. W T. Armitage, Jr.
Mr. Christopher K. Obafunwa
Mr. Donald Richard
Mr. Lloyd Dangerfield
Ms. Chantell Smith
Ms. Anna Simmons
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Ms. Katherine Evans
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LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

REPORT ON SELECTED INTERNAL CONTROLS

ACADIANA LEGAL SERVICES CORPORATION

RNO 619051

Report No. AU 15-12

September 2015

www.oig.lsc.gov

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INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at the Acadiana Legal Services Corporation (ALSC or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's program administration office in Lafayette, LA and at LSC headquarters in Washington, DC.

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

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

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

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

BACKGROUND

Acadiana Legal Services Corporation (ALSC) is a non-profit organization formed in 1978 to provide civil legal services to low income and elderly residents of Louisiana. ALSC has expanded from serving only 6 parishes to serving twenty-one parishes. The Corporation is financially assisted by the Interest on Lawyers' Trust Accounts Program of the Louisiana Bar Foundation and primarily funded by the Legal Services Corporation. The grantee has offices in Lafayette, Alexandria and Lake Charles, LA.

According to the audited financial statements for the grantee's year ended December 31, 2014, the total funding received was $2,956,363. Legal Services Corporation, being the grantee's primary funding source provided approximately 48.8 percent of their funding totaling $1,441,264. ALSC received approximately 46.2 percent of its funding from the Louisiana Bar Foundation, and another 5 percent from other funding sources totaling $1,515,117.

OBJECTIVE

The overall objective was to assess the adequacy of selected internal controls in place at the grantee as the controls related to specific grantee operations and oversight, including program expenditures and fiscal accountability. Specifically, the audit evaluated selected financial and administrative areas and tested related controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations.

AUDIT FINDINGS

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

Disbursements and Credit Cards

Unallowable Expenditures

In our testing of disbursements and credit cards, the OIG found that a majority of the transactions were adequately supported and appropriately approved. However, there were a few instances where the grantee was unaware that certain transactions were unallowable, such as flower purchases. We judgmentally selected and tested 57 disbursement transactions and 37 credit card transactions. Altogether there were nine instances of flower purchases totaling $654 paid for with LSC funds. According to ALSC management, they were not aware until early 2015 that flower purchases were not allowed. The OIG confirmed the flower purchases were made prior to February 2015 and none were made thereafter.

The OIG also found several other instances of expenditures that are unallowable such as a late fee, a gift purchase and the purchase of restaurant gift cards totaling $315.

Overall, the OIG found a total of $969 in unallowable expenditures paid for with LSC funds. According to 45 CFR §1630.3, expenditures by a grantee are allowable under the grant or contract only if the grantee can demonstrate that the cost was reasonable and necessary for the performance of the grant or contract as approved by LSC.

Since ALSC charged costs to LSC that were not in accordance with 45 CFR §1630.3, the OIG is questioning $969.07 of the costs. The OIG will refer the questioned costs to LSC management for review and action.

Self-Approved Travel Expenses

Our test work revealed that the Executive Director approved his own travel expenses for a trip to the SEPDA Annual Conference. The expenditure was properly supported and allowable, however, he approved it himself and there was no review and approval by a board member. Upon further inquiry, we found that the Executive Director normally approves his own travel expenses without any additional board member review. Also, our review of the grantee's accounting manual found that there is no practice or written policy in place regarding approval of the Executive Director's expenses.

The LSC Accounting Guide stipulates that approvals should be required at an appropriate level of management before a commitment of resources is made. A continuation of inadequate documentation and inappropriate level of approval process may result in purchases with unacceptable prices, unauthorized disbursements and misappropriation of LSC funds.

Recommendations: The Executive Director should:

Recommendation 1: ensure that LSC funds are expended in accordance with LSC regulations for allowable goods and services.

Recommendation 2: implement a policy requiring board member review and approval of all of the Executive Director's reimbursable expenses.

Contracting

Contract Practices

OIG reviewed the grantee's contracting practices and procedures, and selected five contracts to test. Overall, OIG found that the grantee has practices in place over consultant and service contracts; however, there are opportunities for improvement. In all five consultants and service contracts reviewed, the grantee did not document each contract action, and supporting documents for each contract were not maintained in a

central file as required by the *Fundamental Criteria of an Accounting and Financial Reporting System* (*Fundamental Criteria*) contained in the LSC Accounting Guide. In addition, four out of five consultant contracts were sole sourced, but the grantee had no sole source justification on file (see table below). OIG found that the verbal justifications for the sole source awards as explained by grantee management were reasonable; however, the justifications need to be documented in writing. Below is a summary of the contracts tested.

Contract No.	Purpose	Total amount LSC paid from 1/1/2014 to 3/31/2015	Type of Contract	Missing Documents
1	Lawn care service	$3,005.00	Sole source	No sole source documentation.
2	Phone system service consultant and purchase	$9,161.70	Sole source	No sole source documentation.
3	Financial Statement audit	$32,500.00	Competitively Bid	N/A
4	IT service	$1,600.00	Sole source	No sole source documentation.
5	IT/Computer service and purchase	$8,633.55	Sole source	No sole source documentation.

Lack of Written Policies

Although the grantee has some policies in place over consultant contracts and professional services, they were not part of the grantee's practices in this area:

The following contracting requirements per LSC's *Fundamental Criteria* were not part of the grantee's practices in this area:

- maintaining contract documentation in a central file,
- documentation for all contract actions,
- identifying the types and dollar values of contracts that require competition, and
- proper approvals for all contract actions.

The LSC Accounting Guide stipulates that since not all contracts are the same, grantee management should identify the contracting procedures for various types of contracts, dollar thresholds, and competition requirements. Contracts that should receive additional oversight include: consulting, personal service, and sole-source. The LSC Accounting Guide further stipulates that the process used for each contract action should be fully documented and the documentation maintained in a central file. Any deviations 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 the contract deliverables can be identified and monitored to ensure completion.

The grantee is aware that its accounting manual needs improvement and a written policy added for contracting as this was also recommended by the Independent Public Accountant during the grantee's recent financial statement audit. Contracting is a high-risk area for potential abuse. Also, if not properly conducted, weak contracting practices can result in a waste of scarce funds and be subject to grantee questioned costs proceedings.

Recommendations: The Executive Director should:

Recommendation 3: ensure that each contract action is fully documented and that the documentation is maintained in a central file and in accordance with the *Fundamental Criteria*.

Recommendation 4: ensure that the grantee's accounting manual (1) includes a policy addressing the dollar thresholds for various types of contracts and (2) includes competition requirements, and (3) identifies contracts that should receive additional oversight such as consulting, personal services, and sole-source contracts.

General Ledger and Financial Controls

Outstanding Checks

The OIG tested the grantee's general ledger and financial controls. Overall, the majority of the grantee's procedures regarding general ledger and financial controls were adequate and adhered to the *Fundamental Criteria*. However, during the OIG's review of the bank reconciliations, we found nine outstanding checks more than 90 days old issued to grantee employees. According to the Administrative Director, checks outstanding for more than 90 days are usually investigated and resolved. These were small dollar reimbursement checks. Specifically, the old outstanding checks were dated from 2011 to 2014 and ranged from $1.65 to $265.

The OIG also noticed that outstanding checks listed on the grantee's bank reconciliation forms do not include a date of issue. Therefore, it is not easy to determine the length of time the checks have been outstanding. According to the Executive Assistant, these nine checks were outstanding for so long due to management oversight. We also noticed the grantee's accounting manual did not have any policies on how to handle old outstanding checks. The LSC Accounting Guide stipulates that checks outstanding for more than six months should be investigated or resolved.

Monitoring outstanding checks is a reconciliation procedure. Proper reconciliation procedures will substantially increase the likelihood of discovering irregular disbursements and recording errors on a timely basis. The reconciliation procedure is a fundamental control technique and failure to use it is an internal control weakness, especially in an environment where full segregation of duties is not possible.

Lack of Written Policy

Although the grantee has adequate approval policies and controls in place related to general ledger transactions, journal entries, and bank reconciliations, they are not formalized in writing. Also, as mentioned earlier, there are no written policies or procedures for addressing stale checks outstanding for long periods of time.

The LSC Accounting Guide stipulates that each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with LSC's *Fundamental Criteria*. Without detailed written procedures, there could be lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover. Approved, documented policies and procedures represent management's intentions on how processes are to be handled and also serve as a method to document the design of controls, communicate the controls to the staff and help ensure that proper controls are followed.

Recommendations: The Executive Director should:

Recommendation 5: ensure that the accounting manual includes approval procedures over all general ledger transactions, journal entries and bank reconciliations.

Recommendation 6: establish and implement a policy that all outstanding checks over six months old are addressed in a timely manner.

Derivative Income

The OIG determined that ALSC's practices over derivative income and attorney fees are in accordance with LSC's *Fundamental Criteria*, however, there are no written policies in place. According to the Administrative Director, they did not include policies over derivative income or attorney fees in their accounting manual due to an oversight. She

further stated they are currently working to include these policies in their accounting manual.

The OIG reviewed the general ledger and financial statements and noted that the grantee received derivative income from interest income and attorneys' fees. According to the financial statements and general ledger, all interest income and attorneys' fees were credited to LSC. Specifically, the grantee received $3,923 in interest and $4,014 in attorney fees.

According to 45 CFR § 1609.6 each recipient shall adopt written policies and procedures to guide staff in complying with this part and maintain records to document the recipient's compliance.

Each recipient must develop specific procedures to be followed by the recipient in complying with LSC's *Fundamental Criteria* according to LSC's Accounting Guide. The failure to have a written policy or procedure may result in an unfair allocation of the total amount of derivative income credited back to the appropriate funding source. In addition, there could be lack of transparency and consistency in the application of the methodology especially in cases of staff turnover.

Recommendation 7: The Executive Director should develop a written derivative income policy that covers all types of derivative income received by the grantee. Also, the Executive Director should develop a written attorneys' fees policy that mirrors the requirements contained in 45 CFR § 1609.

Internal Reporting and Budgeting

The OIG reviewed the grantee's management reporting and budgeting process and determined that the grantee's practices appear to be reasonable and in accordance with LSC's *Fundamental Criteria*. However, the grantee does not have adequate written policies and procedures over the budgeting process detailed in its accounting manual. Specifically the grantee does not address (1) how the budget is formulated and by whom, (2) how the budget is approved and by whom, (3) the factors considered in preparing the budget numbers, (4) timing of the budgeting process, and (5) a mid-year budget adjustment process. The Administrative Director was not aware that the reporting and budgeting process needed a detailed policy in the manual.

As stated in prior findings, the LSC Accounting Guide requires the grantee to maintain a detailed accounting manual and the policies and procedures in the manual should reflect management's intentions.

Recommendation 8: The Executive Director should establish written budget policies and procedures governing the budget process. The policies and procedures should address all the areas noted above.

Vehicles

The Executive Director has exclusive use of a vehicle owned by the grantee, but does not document the purposes for which he uses the car. We could not verify how the vehicle was used because the ED did not use a vehicle log to document where he traveled or the purpose of the travel. The grantee owns 4 vehicles: two are at the Lakeland office, one is at the Alexandria office and one at the Lake Charles office. The other three vehicles are used by employees other than the ED and each vehicle has a sign in and sign out sheet to document their business use. Also, the use of the company gas cards appeared to be in accordance with the grantee's policy and is monitored by the Director of Administration. According to the Executive Director, he only uses the car for business purposes, and therefore didn't feel the need to use sign in and sign out sheets. However, he indicated that he is willing to prepare some type of record of his vehicle usage on a weekly basis.

Some of the vehicle usage by the ED may be personal rather than business related, particularly because he takes the vehicle home nightly and on the weekends. Because the ED does not keep any records on usage for the car, there is no assurance that the car is only being used for business purposes. Without adequate records of usage, the car could be subject to misuse.

In addition, the use of an ALSC vehicle for commuting is a taxable benefit and should be authorized by the Board. Because the ED uses the car in this manner, ALSC should have attributed a portion of the car usage as personal and recorded that part as a fringe benefit to the employee. ALSC should also have reported the benefit to the Internal Revenue Service (IRS) in accordance with IRS regulations.

According to IRS guidance:

1) A fringe benefit is a form of pay for the performance of services. For example, a fringe benefit is provided to an employee when the employee is allowed to use a business vehicle to commute to and from work. Any fringe benefit provided is taxable and must be included in the recipient's pay unless the law specifically excludes it. (IRS Publication 15-B)

2) If an employer-provided vehicle is used for both business and personal purposes, substantiated business use is not taxable to the employee. Personal use is

taxable to the employee as wages. However, if records are not provided by the employee, the value of all use of the automobile is wages to the employee, and the employee can then take itemized deductions for any substantiated business use on Form 1040, Schedule A. Reg. §1.132-5(b). (IRS Fringe Benefit Guide, Federal, State, and Local Governments)

Lastly, expenses related to personal use of the vehicle by the Executive Director should not be charged to LSC. The grantee pays for gasoline, insurance and vehicle maintenance totally or partially with LSC funds. These vehicle related expenses, which resulted from personal usage, are not allowable to the LSC grant based on 45 CFR § 1630.3 which stipulates that expenditures by a recipient are allowable under the recipient's grant or contract only if the recipient can demonstrate that the cost was reasonable and necessary for the performance of the grant or contract as approved by LSC.

Since it appears that a portion of the vehicle related expenses associated with the car used by the Executive Director may be personal in nature, the OIG will question the personal portion of those expenses. Due to the lack of recordkeeping on car usage, the OIG could not determine an amount that should be questioned. As such, we will refer this matter to LSC management for further review and action.

Recommendations:

Recommendation 9: ALSC's Board of Directors should decide whether allowing the ED exclusive use of a grantee vehicle, which includes permitting him to take the car home, is a benefit they wish to give the ED as part of his compensation. If so, the grantee needs to account for the personal portion of the vehicle's use as a fringe benefit in accordance with IRS regulations.

Recommendation 10: Whenever the Executive Director uses a grantee vehicle, he should prepare documentation on how he used the vehicle and the purpose of his travel as required for the rest of the staff. That documentation should be used as support for the ED's personal and business use of the car.

Recommendation 11: The Executive Director should ensure that no vehicle related expenses resulting from personal usage, such as gasoline, insurance or maintenance are charged to LSC funds.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

ALCS management agreed with 4 of the 7 findings and all 11 of the recommendation stated in the draft. They disagreed with 3 of the findings. The findings and recommendations covered unallowable expenses, self-approved travel reimbursements, contracting, general ledger and financial controls, derivative income, internal reporting and budgeting and vehicles.

With respect to unallowable expenses, the grantee believes that $315 spent on gift cards for employees was reasonable and necessary and in accordance with OMB Circular A-122 which allows for expenditures for employee morale, welfare and health. According to the grantee, the gift cards were purchased to show appreciation for employees and to keep morale up. The grantee stated that they have completed training to ensure compliance with LSC regulations related to expenditures.

ALSC management disagrees with the OIG's finding that the Executive Directors reimbursable expenses are self- approved without Board member review. They believe that the requirements of Board member review of the Executive Directors reimbursable expenses are met because a Board member is required to sign the checks related to the Executive Directors reimbursements. However, ACLS has revised their conference and travel policy to include submitting the Executive Director's travel and reimbursements to a Board member for review and approval prior to travel.

ALSC management noted that it's their practice and policy to document all contracts for consulting or service with a written agreement, and contracts are kept in a centralized filing system in the Administration Department. They specifically referred to contracts for lawn care, phone system and IT computer purchases and the reasons why they were initiated as sole source purchases and not competitively bid.

With respect to general ledger and financial controls, the grantee agreed with our finding and recommendations. They have implemented a new policy on how to handle outstanding checks, they have provided additional training on how to properly prepare reconciliations and the bank reconciliation now includes a date for each check.

A new derivative income policy was created to comply with LSC regulation 45 CFR Part 1609. Grantee management agreed with the OIG's finding and recommendation.

ALSC management agreed with the OIG's finding and recommendation and stated that their current reporting policy will be revised to reflect actual procedures in detail for preparation and dissemination of the budget reports.

With respect to vehicles, ALSC stated that the Executive Director now has begun using mileage logs to track both business and personal usage of the company vehicle. Also,

grantee management will submit a recommendation to the Board for approval of the Executive Director's business use of the vehicle and commuting to and from work. They stated that they will also prepare a new policy based on the IRS Commuting Rule for the Executive Director's use of the company vehicle.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers the grantee's planned actions responsive to all 11 of the recommendations. As such, Recommendations 4, 5, 6, 7, 8, 9, 10 and 11 will remain open until the grantee has officially adopted and implemented policies and procedures related to contracting, general ledger and financial controls, derivative income, internal reporting and budgeting and vehicles as stated in the report.

For our finding on unallowable expenditures of $315 for gift cards, it is LSC's position that gifts are not an allowable LSC expense. LSC management recently issued Program Letter 15-5 as clarification to all Executive Directors that gifts are not allowed under LSC regulation 45 CFR 1630. As such, we view this expenditure as unallowable under LSC regulations and we will question the cost.

The OIG believes that the Executive Director self- approving his own expenses without Board member approval is not proper. Although a Board member may have been involved in signing the check for the reimbursement, ALSC has an approval process and form that they complete for these types of transactions. This form showed the Executive Director as the person who approved the reimbursement transaction for his own request. The check signing process is not in and of itself, a control that can be relied on as a method of approving expenditures.

Lastly, we found that the grantee's contracts we requested were not maintained in a central filing system as required by LSC's *Fundamental Criteria*, and as such, we stand by our statement in this finding. We believe the contracts mentioned in the grantee's response that we identified as sole source contracts in the report, regardless of their explanation, should have been competitively bid or there should have been a written detailed sole source justification on file explaining why they were not competitively bid.

SCOPE AND METHODOLOGY

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

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

To obtain an understanding of the internal controls over the areas reviewed; grantee policies and procedures were reviewed including manuals, guidelines, memoranda and directives, setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework and management and staff were interviewed as to their knowledge and understanding of the processes in place. To review and evaluate internal controls, the grantee's internal control system and processes were compared to the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. This review was limited in scope and 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 94 disbursements totaling $177,694.22. The sample represented approximately 5.2 percent of the $3,420,377.54 disbursed for expenses other than payroll during the period January 1, 2014 to March 31, 2015.

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.

To evaluate and test internal controls over the salary advances, contracting, property and equipment, internal management reporting and budgeting; employee benefits and payroll, we

interviewed appropriate program personnel, examined related policies and procedures and selected specific transactions to review for adequacy.

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

Controls over derivative income were reviewed by examining current grantee practices and reviewing the written policies contained in the grantee's Procedures and Process Manual.

The on-site fieldwork was conducted from May 11, 2015 through May 19, 2015. Our work was conducted at the grantee's program administration office in Lafayette, LA and LSC headquarters in Washington, DC. We reviewed documents pertaining primarily to the period January 1, 2014 through March 31, 2015.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

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APPENDIX II

September 24, 2015

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

RE: Draft Report of OIG Report No. AU XX-XX
Recipient No. 619051

Dear Mr. Seeba:

This correspondence is in response to the draft report of the Office of Inspector General in regard to their visit to Acadiana Legal Service Corporation (ALSC) on May 11-19, 2015.

Disbursements and Credit Cards

Unallowable Expenditures:

OIG's Recommendation 1: Ensure that LSC funds are expended in accordance with LSC regulations for allowable goods and services.

ALSC's Response: ALSC hereby agrees to implement Recommendation 1.

ALSC takes issue with the finding that its expenditures for a gift purchase and the purchase of restaurant gift cards totaling $315.00 were unallowable. ALSC maintains that the costs were reasonable and necessary for the performance of the grant or contract as approved by ALSC. The federal Office of Management and Budget (OMB) Circular 122 allows expenditures for employee morale, health, and welfare costs. The Circular provides:

> "13. Employee morale, health, and welfare costs.
>
> a. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the non-profit organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.

b. Such costs will be equitably apportioned to all activities of the non-profit organization. Income generated from any of these activities will be credited to the cost thereof unless such income has been irrevocably set over to employee welfare organizations."

Further, ALSC notes that gift cards are not addressed in LSC's accounting guide. ALSC acknowledged Administrative Professionals' Day by purchasing gift cards for the legal secretaries, and administrative/clerical employees. Gift cards of $20 per person were purchased to show appreciation to these employees. Management felt the need to do so to attempt to improve the morale of these lower paid employees who have not received a salary increase in more than five (5) years. A gift card was also purchased in the amount of $75 as a farewell gift for a long-term employee in recognition of his service. This practice is part of the organization's protocol to acknowledge employees upon their resignation or retirement.

Training has been completed with the Accounting and Administrative Services Unit staff to insure compliance with LSC regulations regarding unallowable expenses. ALSC's current Accounts Payable Policy was revised and a procedure was added to review invoices for proper coding for expenses not allowed to be paid with LSC funds.

<u>Self-Approved Travel Expenses</u>:

OIG's Recommendation 2: Implement a policy requiring Board member review and approval of all of the Executive Director's reimbursable expenses.

ALSC's Response: ALSC hereby agrees to implement Recommendation 2.

However, ALSC disagrees with the finding that the firm's practices allow the Executive Director to approve reimbursement of his expenses without Board member approval. ALSC's general account checks require two signatures necessitating review of reimbursement checks to the Executive Director by a Board member as a required signatory of said checks. In order to address this matter, a meeting will be held with the President of the Board of Directors to discuss a procedure for submitting the Executive Director's travel advance or other reimbursement requests for review and approval. This procedure will also be followed for the reimbursement for any expenses submitted by the Executive Director.

ALSC's Conference and Training Travel Policy has been revised to include this procedure and requirement.

Contracting

Contract Practices:

OIG' Recommendation 3: Ensure that each contract action is fully documented and that the documentation is maintained in a central file and in accordance with the *Fundamental Criteria*.

OIG's Recommendation 4: Ensure that the grantee's accounting manual (1) includes a policy addressing the dollar thresholds for various types of contracts and (2) includes competition requirements, and (3) identifies contracts that should receive additional oversight such as consulting, personal services, and sole-source contracts.

ALSC's Response: ALSC hereby agrees to implement Recommendations 3 and 4.

ALSC notes that it is the firm's policy and practice to document all contracts for consulting or service with a written agreement. All payments for contracts or services are supported by a written agreement and/or an accepted proposal or invoice for the service rendered. The organization will secure a written agreement for any missing contracts.

Employment contracts are kept in our central filing system in the Administration Department. The organization has always maintained a dual filing system for contracts. Two copies of the contract are filed – one in the personnel file or vendor's file (if it is not an employment contract), and the second in the "Contracts" file for each fiscal year.

Regarding the "sole source" comment for lawn care services, ALSC has a practice of obtaining quotes for service and service-related work approximately every 3-4 years. Quotes were obtained for lawn services in both the Alexandria and Lafayette offices prior to our securing these vendors, but this information was not requested by the OIG staff during their visit. ALSC is currently reviewing all service-related agreements, such as janitorial, lawn service, pest control, etc., to insure that we have completed a bidding process for these services in the last 3-4 years. For services we have not placed out for bids in the last 3 years, we are actively pursuing proposals now. Further, ALSC is formulating a new policy stipulating contract procedures for various types of contracts, dollar thresholds, and competition requirements as well as a procedure to address sole source situations.

Detailed oral and written explanations were given to the OIG staff regarding the phone system services contract. ALSC purchased a new phone system two years ago and there were only two vendors in the region who could support the equipment purchased. One vendor was chosen during the first year of the equipment purchase. However, the service was unacceptable and its reliability decreased dramatically prior to the end of the one year contract. After seeking an alternative vendor to provide the support needed for the new phone system, we were again informed that there was only one other vendor in

the region. ALSC had no choice but to contract with the second vendor which incidentally gave us a better monthly service price and improved service. The documents were shared with the OIG staff during the visit and appeared to be acceptable at that time.

Regarding the IT/computer purchase and service sole source, we also shared a written explanation with the OIG staff during the visit. Basically, Dell computers allow our IT Manager to customize computer equipment that will be compatible with our current computer network and systems. ALSC is located in a basically rural community and the options to purchase computer equipment at a reasonable price in the local area are almost non-existent. As a result, we have established a relationship with Dell Computers that has served the organization well for most of our computer and laptop purchases. Because of this long-term relationship, we have been able to take advantage of major discounts which have resulted in huge savings in computer and computer-related equipment purchases.

General Ledger and Financial Controls

Lack of Written Policies:

OIG's Recommendation 5: Ensure that the accounting manual includes approval procedures over all general ledger transactions, journal entries and bank reconciliations.

ALSC's Response: ALSC hereby agrees to implement Recommendation 5.

Outstanding Checks:

OIG's Recommendation 6: Establish and implement a policy that all outstanding checks over six months old are addressed in a timely manner.

ALSC's Response: ALSC has voided all dated outstanding checks. The voided checks have been reconciled in the bank statements, coded in the general ledger, and filed in the voided check monthly file. Additional training and discussions have taken place with the Executive and Administrative staff to review the proper reconciliation procedures that will assist in identifying outstanding checks. The bank reconciliation form has been revised to include a date of issue for each check. Management has drafted a new policy and procedure to address voided and outstanding checks in the future.

Derivative Income

OIG's Recommendation 7: The Executive Director should develop a written derivative income policy that covers all types of derivative income received by the grantee. Also, the Executive Director should develop a written attorneys' fees policy that mirrors the requirements contained in 45 CFR §1609.

ALSC's Response: ALSC hereby agrees to implement a written derivative income policy and to implement a written attorneys' fees policy in accordance with the requirements contained in 45 CFR §1609.

As noted in the Draft Report, ALSC's practices regarding derivative income and attorneys' fees are in accordance with LSC's Fundamental Criteria. ALSC did provide a written draft of the abbreviated policy to the OIG staff in their list of requested materials prior to their visit. However, ALSC has drafted a new extended policy and specific procedures in accordance with 45 CFR §1609 to comply with this recommendation.

Internal Reporting and Budgeting

OIG's Recommendation 8: The Executive Director should establish written budget policies and procedures governing the budget process. The policies and procedures should address all the areas noted above.

ALSC's Response: ALSC has an extensive and well documented process for preparing and reporting the organization's annual, quarterly, and revised budgets. Over the past few years, the procedures have been evaluated and broadened to maximize the usefulness for these essential Management Reports. The current policy will be revised to reflect the actual procedures in detail for the preparation and dissemination of the budget reports. These procedures were discussed with the OIG staff during the visit.

Vehicles

OIG's Recommendation 9: ALSC's Board of Directors should decide whether allowing the ED exclusive use of a grantee vehicle, which includes permitting him to take the car home, is a benefit they wish to give the Executive Director as part of his compensation. If so, the grantee needs to account for the personal portion of the vehicle's use as a fringe benefit in accordance with IRS regulations.

OIG's Recommendation 10: Whenever the Executive Director uses a grantee vehicle, he should prepare documentation on how he used the vehicle and the purpose of his travel as required for the rest of the staff. That documentation should be used as support for the Executive Director's personal and business use of the car.

OIG's Recommendation 11: The Executive Director should ensure that no vehicle-related expenses resulting from personal usage, such as gasoline, insurance or maintenance are charged to LSC funds.

ALSC's Response: ALSC currently owns three company vehicles – two are located in the Lafayette office and one is located in the Lake Charles branch office. A fourth vehicle was severely damaged by a fallen tree in April of this year and was out of service and in the custody of the insurance company during the OIG visit. Shortly thereafter the car was declared a total loss and insurance proceeds were received by ALSC for the value of the car.

The Executive Director has begun usage of the mileage log for the company vehicle. These logs will be submitted to the Administrative Director along with other reports for each company vehicle. These reports detail the date and purpose for use of the company vehicle and are recorded contemporaneously.

The Board of Directors will be presented with a recommendation from Management to approve the exclusive use of the company vehicle by the Executive Director, and authorizing his use of the car for commuting back and forth to the office.

In addition to the monthly mileage usage log to track business use of the company car, a personal mileage log sheet has been devised for potential use if the car is used for commuting between the office and his residence. ALSC will design a policy regarding the Executive Director's use of the company vehicle which comports with the provisions of the IRS commuting rule. The IRS commuting rule is as follows:

> "Under this rule, you determine the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute (that is, from home to work or from work to home) by $1.50. If more than one employee commutes in the vehicle, this value applies to each employee. This amount must be included in the employee's wages or reimbursed by the employee.
>
> You can use the commuting rule if all the following requirements are met.
>
> - You provide the vehicle to an employee for use in your trade or business and, for bona fide noncompensatory business reasons, you require the employee to commute in the vehicle. You will be treated as if you had met this requirement if the vehicle is generally used each workday to carry at least three employees to and from work in an employer sponsored commuting pool.
>
> - You establish a written policy under which you do not allow the employee to use the vehicle for personal purposes other than for commuting or *de minimis* personal use (such as a stop for a personal errand on the way between a business delivery and the employee's home). Personal use of a vehicle is all use that is not for your trade or business.

- The employee does not use the vehicle for personal purposes other than commuting and *de minimis* personal use.

- If this vehicle is an automobile (any four-wheeled vehicle, such as a car, pickup truck, or van), the employee who uses it for commuting is not a control employee. ...

Vehicle. For this rule, a vehicle is any motorized wheeled vehicle, including an automobile manufactured primarily for use on public streets, roads, and highways.

Control employee. A control employee of a nongovernment employer for 2014 is generally any of the following employees.

- A board or shareholder-appointed, confirmed, or elected officer whose pay is $105,000 or more.
- A director.
- An employee whose pay is $210,000 or more.
- An employee who owns a 1% or more equity, capital, or profits interest in your business.

A control employee for a government employer for 2014 is either of the following.

- A government employee whose compensation is equal to or exceeds Federal Government Executive Level V. See the Office of Personnel Management website at www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/ for 2014 compensation information.

- An elected official.

Highly compensated employee alternative. Instead of using the preceding definition, you can choose to define a control employee as any highly compensated employee. A highly compensated employee for 2014 is an employee who meets either of the following tests.

1. The employee was a 5% owner at any time during the year or the preceding year.

2. The employee received more than $115,000 in pay for the preceding year.

You can choose to ignore test (2) if the employee was not also in the top 20% of employees when ranked by pay for the preceding year."

APPENDIX II

If you do not agree that our response fully complies with your recommendations, please advise.

All policies referred to in this correspondence will be forwarded to your office upon approval by the ALSC Board of Directors.

If you have any questions concerning this submission, please do not hesitate to contact me directly.

Sincerely,

Joseph R. Oelkers, III
Executive Director

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