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March 22, 2017

Mr. Jonathan Mannina
Executive Director
Community Legal Aid,
Inc. 405 Main Street
Worcester, MA 01608

Dear Mr. Mannina:

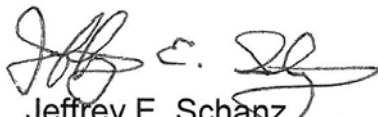
Enclosed is the Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Community Legal Aid, Inc. Your comments are included in the final report as Appendix II.

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

Recommendations 1, 2 and 3 are considered closed as Grantee management has taken immediate resolutions.

We thank you and your staff for the cooperation you extended to us during the visit.

Sincerely,


Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings,
Vice President for Grants Management

Community Legal Aid, Inc.

John A. Shea, Esq.
Board Chairperson

Sent by E-mail to Board of Directors

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LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

**FINAL REPORT ON SELECTED INTERNAL
CONTROLS**

COMMUNITY LEGAL AID, INC.

RNO 122150

Report No. AU 17-03

March 2017

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 Community Legal Aid (CLA or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Worcester, Massachusetts and at LSC headquarters in Washington, DC.

In accordance with Chapter 3 of the Legal Services Corporation Accounting Guide for LSC Recipients (2010 Edition) (Accounting Guide), 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

CLA is a nonprofit organization that provides free civil legal services to low-income and elderly residents of central and western Massachusetts. CLA is a relatively new LSC grantee receiving its first LSC grant award in 2014. CLA consolidated with Massachusetts Justice Project (MJP) in 2014 and as part of the reorganization, CLA created a wholly-owned subsidiary, Central West Justice Center (CWJC), to provide additional services to clients in central and western Massachusetts.

CLA and CWJC share the same Accounting Manual. Although the same accounting system is used for CLA and CWJC, separate modules are maintained within the accounting system for each entity. According to the Executive Director's Program Integrity Report, CLA is a legally separate entity from CWJC. The report states that within the past year, no LSC funds or other resources have been transferred or used to subsidize restricted activities of either organization. The report also states that CLA and CWJC staff members maintain separate time records. According to the report, CLA provides select administrative services to CWJC (e.g., accounting support) and charges CWJC a fair share for these services based on an accounting methodology which allocates costs between the two programs. The OIG did not test the Executive Director's representations

on the Program Integrity Report, but focused its review solely on selected internal controls in place at CLA.

CLA receives funding from LSC, the Massachusetts Legal Assistance Corporation, U.S. Department of Housing and Urban Development, and various other funders. According to the grantee's audited financial statements for the year ended September 30, 2015, total funding received by the grantee from LSC and other entities was \$8,518,867 with approximately 16 percent (\$1,392,010) provided by LSC.

OBJECTIVE

The overall objective was to assess the adequacy of selected internal controls in place at the grantee as the controls relate to specific grantee operations and oversight, including program expenditures and fiscal accountability. Specifically, 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 disbursements, credit cards, contracting, cost allocation, derivative income, employee benefits, property and equipment, management reporting and budgeting, and general ledger and financial controls. Other than the issues detailed below, the grantee's controls in the specific areas above were adequate in design and operation.

CREDIT CARDS

CLA's written policies for credit cards are generally comparable to the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. The controls in this area were tested and generally deemed adequate, except for the Human Resources Manager's occasional use of the Executive Director's American Express credit card information to make purchases without prior or documented approval. One such charge totaling \$190, not allocated to LSC, was made by the Human Resources Manager for a membership to the Society for Human Resources Management.

Section 3-5.4(a) of the LSC Accounting Guide states that approvals should be required at an appropriate level of management before a commitment of resources is made.

The Finance Director stated the Human Resources Manager may have had the Executive Director's credit card information as she posts jobs online and checks the new hires on the Criminal Offender Record Information (CORI) system. Both the Finance Director and the Executive Director stated that she does not often use the card. However, they will further research her use and determine if a separate credit card should be issued to her or implement a process for the Human Resources Manager to seek Executive Director approval prior to using the credit card to make purchases.

Without proper controls over the use of the credit cards, the grantee may be at a higher risk of misuse and loss of scarce resources.

Recommendation 1: The Executive Director should, if necessary, authorize the issuance of a credit card to the Human Resources Manager for business use or develop a prior approval process for use of the Executive Director's credit card information to make purchases.

WRITTEN POLICIES AND PROCEDURES

The grantee did not have written policies related to management reporting and budgeting. In addition, the grantee did not have detailed policies and procedures in place for disposal of assets and electronic devices containing sensitive information. Although the grantee had adequate practices in place for the areas detailed above, the Accounting Policies and Procedures need to be updated.

Section 3-4 of the LSC Accounting Guide states that each grantee must develop a written accounting manual describing the specific procedures the grantee must follow in order to comply with the *Fundamental Criteria*.

The CLA Finance Director stated that lack of documented policies in these areas was due to a management oversight. Based on the OIG's review and recommendation, the Finance Director prepared and provided the OIG's on-site team with draft policies for management reporting and budgeting as well as disposal of assets and electronic devices. The draft policies are comparable to the grantee's described practice and LSC's *Fundamental Criteria*.

Fully documenting policies and procedures helps ensure that proper controls are implemented, serves as a vehicle to communicate controls to all staff, and helps ensure that staff members understand their roles and responsibilities. Without detailed written procedures, there could be a lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover.

Recommendation 2: The Executive Director should ensure that draft policies related to management reporting and budgeting and disposal of assets and electronic devices are submitted to the grantee's Board of Directors for approval and also incorporated into the grantee's Accounting Policies and Procedures.

DISBURSEMENTS

OIG review of CLA's written policies over disbursements found that they are mostly comparable to the *Fundamental Criteria*, except there is no documented policy for invoice review and approval process prior to check generation for signature by an authorized signatory.

The OIG selected 87 disbursements comprised of 141 transactions totaling \$552,522. All disbursements tested were allowable; however, some either lacked documented approvals prior to check generation or did not have dated approvals.

Inadequate approvals

We noted 115 transactions, totaling \$315,442, that either did not have a documented approval prior to check generation, or approvals were not dated.

- 68 transactions, totaling \$243,912, did not have a documented approval prior to check generation. In addition, the Executive Director did not document his approval on the invoices, but notes his initials on a payment voucher generated by the grantee's accounting system.
- 47 transactions, totaling \$71,530, had approvals but were not dated by the approving manager. Therefore, the OIG could not determine if the approval was granted prior to generating a check.

The LSC 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.”

Both the Finance and Executive Directors stated that the Executive Director reviews every invoice prior to disbursing a payment. However, the grantee's process is to generate the check and then have the Executive Director review and approve the invoice and disbursement. The OIG could not determine if the invoices were reviewed by the Executive Director without some evidence of his review on the invoice.

Also, the Finance and Executive Directors both added that grantee management failed to notice that authorized approvers were not documenting dates of their approval.

Failure to follow the purchase approval process may result in purchases being made without the knowledge of appropriate management or at unacceptable prices or terms. Also, without signatures being dated there is no way to verify if approvals were made timely.

Prior to the on-site exit conference, the grantee had begun implementing the OIG recommendation to document review of the invoices and date the approvals; however, the grantee's written policies need to be updated to include this process.

Recommendation 3: The Executive Director should enhance the written disbursement policies to include review and proper approval of invoices by the appropriate level of management before commitment of resources is made.

ACCOUNTING SYSTEM

All users of the Financial Edge accounting system had supervisory rights and thus user access to all modules of the system.

The LSC 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 Finance Director stated that when the system was set up, all users were grouped together as one and therefore, everyone had the same access rights. She stated that in order to establish different rights for each user, a new group would have to be created. She did not consider a new group necessary since periodic reviews of general ledger postings were conducted.

Persons having dual responsibilities like data entry and supervisory review have increased chances of being involved in fraudulent activities that may go undetected.

Prior to the on-site exit conference, the Finance Director implemented a change to the user access rights to segregate individuals with user rights from those with supervisory rights. Since grantee management has already corrected the issue, no recommendation will be made relating to this finding.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

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

- They have issued an American Express card with appropriate spending limits to the Human Resources Manager, and she has been added as an authorized user on CLA's credit card accounting policy. In addition, they noted that the Human Resources Manager never used the Executive Director's card without prior approval, but agree that the prior approval was not always documented;
- The draft policies related to management reporting and budgeting and disposal of assets and electronic devices have been approved and adopted by the Audit and Finance Committee of CLA's Board of Directors; and
- They agree with the report that they had already begun implementing the recommendation to document review of invoices and the approvals while the OIG team was on site. For their new process, the Executive Director reviews and approves payment vouchers and invoices before checks are cut. The accounting department then issues the checks and returns them to the Executive Director (or any other manager with signing authority) to sign the checks. Grantee management agreed with OIG's policy recommendation, which they stated they have adopted and since implemented.

The Grantee's comments are included in Appendix II.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

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

Recommendations 1, 2 and 3 are considered closed as Grantee management has taken immediate actions for resolution.

APPENDIX I

SCOPE AND METHODOLOGY

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

- Cash disbursements
- Credit card usage
- Cost allocation
- Contracting
- Property and equipment
- Derivative income
- Employee benefits
- General Ledger and Financial Controls
- Internal management reporting and budgeting

To obtain an understanding of the internal controls over these areas, we reviewed grantee policies and procedures including manuals, guidelines, memoranda, and directives setting forth current grantee practices. We interviewed grantee officials to obtain an understanding of the internal control framework and to assess the level of awareness and knowledge of management and staff of the processes in place. To review and evaluate internal controls, we compared the grantee's internal control system and processes 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 source documentation for the entries selected for review. We determined the data were sufficiently reliable for the purposes of this report.

We reviewed disbursements from a judgmentally selected sample of employee and vendor files. Eighty-seven disbursements totaling \$552,522 were selected for the period January 1 to November 30, 2016 (approximately 23 percent of the \$2,423,477 disbursed for expenses other than payroll). To assess the appropriateness of expenditures, we reviewed invoices and vendor lists, then traced the expenditures to the general ledger. We evaluated the appropriateness of the expenditures on the basis of grant agreements, applicable laws and regulations, and LSC policy guidance.

We reviewed credit card disbursements from a judgmentally selected sample of credit card statements. Five credit card statements from the period January 1, 2016 to November 30, 2016 were selected. We reviewed 25 transactions, totaling \$8,187 to assess the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

To evaluate and test internal controls over the contracting process, general ledger and financial controls, internal reporting and budgeting, and fixed assets, 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 period under review with grantee management and reviewed the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We recalculated the allocated amounts for sampled months during the period of review using the information provided by the grantee.

We reviewed controls over derivative income by interviewing management, identifying current grantee practices, reviewing the written policies contained in the grantee's Accounting Manual, and examining entries to the accounting system which documented receipt and allocation of derivative income.

The OIG conducted on-site fieldwork from January 9, 2017 through January 13, 2017. Our work was conducted at the grantee's administrative office in Worcester, MA and at LSC headquarters in Washington, DC. We reviewed documents pertaining primarily to the period January 1 through November 30, 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 that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.



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March 15, 2017

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

Re: Community Legal Aid, Inc., RNO 122150

Dear Mr. Seeba,

Please accept this letter as Community Legal Aid's comments on the Draft Report on Selected Internal Controls issued on February 28, 2017. Thank you for allowing CLA to comment on the Draft Report. We are taking this opportunity to clarify the systems that were in place when OIG's visit occurred, to reaffirm our longstanding commitment to the integrity and strength of our internal controls, and to respond specifically to the three recommendations that the OIG team made.

I. Credit Cards

The OIG team found that the Human Resources Manager had occasionally used the Executive Director's American Express credit card information "to make purchases without prior or documented approval" and recommended that the organization either authorize the issuance of a credit card to the H.R. Manager for business use or develop a prior approval process for use of the Executive Director's credit card information to make purchases.

It is important to note that the H.R. Manager **never** used the Executive Director's credit card information without his prior approval; none of her uses were unauthorized, but we agree that the prior approval she had received was not always documented in writing. In response to this recommendation, CLA has issued an American Express card with appropriate spending limits to our H.R. Manager, and she has been added as an authorized user on CLA's credit card accounting policy.

II. Written Policies and Procedures

The OIG team found that CLA did not have written policies related to management reporting and budgeting, and that CLA did not have detailed policies and procedures in place for disposal of assets and electronic devices containing sensitive information. The Draft Report acknowledges that CLA **did** have adequate practices in place for the areas detailed above, and recommended that draft policies related to management reporting and budgeting and disposal of assets and electronic devices be submitted to CLA's Board of Directors for approval and incorporated into CLA's Accounting Policies and Procedures.

The Draft Report notes that CLA's Finance Director "prepared and provided the OIG's on-site team with draft policies for management reporting and budgeting as well as disposal of assets and electronic devices." After the site visit, the Audit & Finance Committee of CLA's Board of Directors, which has been authorized by the Board to review and approve fiscal policies, approved and adopted the draft policies that the OIG team had reviewed.

III. Disbursements

The OIG team found that CLA did not have a documented policy for an invoice review and approval process prior to check generation for signature by an authorized signatory, and recommended that CLA's written disbursement policies be enhanced to include review and proper approval of invoices by the appropriate level of management before commitment of resources is made.

We want to clarify the process that was in place before the OIG site visit. For each disbursement, the fiscal department simultaneously gave the Executive Director a dated invoice (attached to a dated payment voucher) and a check. He reviewed each invoice and, if he approved it, he initialed the attached payment voucher (without specifically noting the date next to his initials). Only then did he sign the check which corresponded to each invoice and voucher. In short, the E.D.'s review and initialing of the voucher was proof of his review of the invoice prior to signing the check, and no checks were **ever** sent without the E.D.'s prior review and approval.

The Draft Report correctly notes that while the OIG team was still on site, CLA had begun implementing the recommendation to document review of the invoices and date the approvals. Now, the E.D. gets payment vouchers and invoices before checks are cut. He reviews, initials, and dates the vouchers. The accounting department then issues checks and returns them to the E.D., along with the signed/dated payment vouchers. The E.D. (or other manager with signing authority), after confirming that the payment voucher has been approved, then signs the checks. CLA amended our accounting policy to reflect these modifications, and the changes were reviewed and approved by the Audit & Finance Committee of CLA's Board of Directors, which has been authorized by the Board to review and approve fiscal policies. In addition, managers who approve payments now date as well as sign the invoices they review; these invoices are then presented to the E.D. along with the payment vouchers that he approves before checks are cut.

It is important to note that CLA always had a disbursement approval process in place, under which invoices were reviewed and approved before checks were signed and sent out, and that there was never any risk of purchases being made without the knowledge and prior approval of appropriate managers and the Executive Director. CLA agrees that OIG's policy recommendation – which CLA has adopted and since implemented – will further strengthen its existing system of internal controls.

IV. Miscellaneous

OIG did not make a recommendation on its findings about the segregation of duties in CLA's accounting system. The Draft Report acknowledges that during the team's on-site visit, the Finance Director implemented a change to the user access rights in order to segregate individuals with user rights from those with supervisory rights. We feel it is important to note that only three people (the two employees of CLA's fiscal department and an outside C.P.A. consultant who works approximately 10 hours a week for CLA) had supervisory rights to the accounting system. We believe that we had adequate segregation of duties in place in support of our internal controls for this very small number of people with access to the accounting system, including detailed reviews of check registers and check stock numbers and periodic detailed review of the general ledger.

Finally, we wanted to correct the name of our state funder, referenced at the top of page 2 of the Draft Report. The funder is the Massachusetts Legal Assistance Corporation (not the Massachusetts Legal Assistance Center).

Thank you again for giving us this opportunity to comment on the report. We enjoyed meeting your team. Please let me know if you have any questions about our comments.

Very truly yours,

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke, positioned above the printed name and title.

Jonathan L. Mannina
Executive Director