



Inspector General
Jeffrey E. Schanz

July 31, 2008

Ms. Brenda Ford Harding
Executive Director
Neighborhood Legal Services Program
of the District of Columbia
680 Rhode Island Avenue, N.E.
Washington, D.C. 20002

Dear Ms. Harding:

Enclosed is our final report on the results of our audit on Selected Internal Controls at Neighborhood Legal Services. We have reviewed your comments and actions taken with regard to the findings in our draft report, and believe they adequately address and resolve those issues. We therefore consider the findings closed. Your comments on the draft report are included as Appendix 1.

We want to thank you and your staff for the cooperation and assistance you provided to us.

Sincerely,



Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Karen Sarjeant, Vice President
Programs and Compliance

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**



**REPORT ON SELECTED INTERNAL
CONTROLS -**

**NEIGHBORHOOD LEGAL SERVICES
PROGRAM OF THE DISTRICT OF COLUMBIA**

RNO 309080

Report No. AU08-01
JULY 2008

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INTRODUCTION

In November, 2007, management of the Legal Services Corporation (LSC) referred to the Office of Inspector General (OIG), for follow-up, instances of internal control weakness at certain LSC grantees identified in the Government Accountability Office (GAO) Draft Report entitled, *Legal Services Corporation – Improved Internal Controls Needed in Grants Management and Oversight* or indentified in a November 13, 2007 meeting between GAO and LSC staff. The final GAO report (GAO–08-37) was published on December 28, 2007.

LSC management requested that the OIG assess whether the issues specifically identified by GAO had been corrected at each of grantees referred to the OIG by management.

BACKGROUND

GAO assessed whether LSC's internal controls over grants management and oversight processes provide reasonable assurance that grant funds are used for their intended purposes. GAO analyzed records and interviewed LSC officials to obtain an understanding of LSC's internal control framework, including the monitoring and oversight of grantees, and performed limited reviews of internal controls and compliance at 14 grantees. GAO reported control weaknesses at 9 of the 14 grantee sites it visited. These weaknesses included using LSC grant funds for expenditures with insufficient supporting documentation, for unusual contractor arrangements, alcohol purchases, employee interest-free loans, lobbying fees, late fees, and earnest money.

OBJECTIVE

Our overall objective was to determine whether the conditions cited in the GAO report were corrected and controls were put in place by the Neighborhood Legal Services Program of the District of Columbia (grantee) to detect or prevent similar situations from recurring. In addition, we evaluated other selected financial and administrative areas relating to the GAO findings and tested the related controls to ensure that expenditures were adequately supported and allowed under the LSC Act and regulations.

SCOPE AND METHODOLOGY

To accomplish our objective we reviewed controls over the client intake process, employee benefits and reimbursements, disbursements, and internal

management/budgeting. To obtain an understanding of the internal control over these areas, we reviewed grantee policies and procedures, including any manuals, guidelines, memoranda, and directives setting forth current grantee practices. We interviewed grantee officials to obtain an understanding of the internal control framework and interviewed grantee management and staff as to their knowledge and understanding of the processes in place.

We primarily conducted fieldwork at the grantee's central administrative office. To test for the appropriateness of expenditures and the existence of adequate supporting documentation, we reviewed disbursements from a judgmentally selected sample of employee and vendor files. To assess the appropriateness of grantee expenditures, we reviewed invoices, vendor lists, and general ledger details. The appropriateness of grantee expenditures was based on grant agreements, applicable laws and regulations, and LSC policy guidance. Our grantee reviews were limited in scope and were not sufficient for expressing an opinion on the entire system of grantee internal controls or compliance.

The on-site fieldwork for Neighborhood Legal Service Program of the District of Columbia, was conducted from March 3, 2008 through March 7, 2008. A follow-up visit was conducted June 24, 2008 to verify actions the grantee took to address issues identified during the site visit in March. Documents reviewed for the March site visit pertained to the period January 1, 2007 through February 29, 2008, the documents reviewed for the follow-up visit were through June 24, 2008. Our work was conducted at the grantee's site and at LSC headquarters in Washington, DC.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Grantee management had taken appropriate actions to address an issue raised by GAO dealing with the lack of supporting documentation for payments. Disbursements were adequately supported and allowable, and allocations to LSC were proper. Also, internal controls over the client intake process, employee benefits and reimbursements, disbursements, and internal management/budgeting were operating in a manner expected to ensure compliance with the LSC Act and regulations. However, we did note one policy and three procedures where internal controls could be strengthened. Specifically, the grantee did not have a policy addressing salary advances. The grantee also did not have procedures in place to: (1) document adjustments to

the accounting records; (2) control significant dollar value purchases; and (3) review and approve the Executive Director's travel vouchers. Subsequent to our March site visit and verified during our follow-up visit, the grantee had taken action to address some of the deficiencies identified.

RESULTS OF AUDIT

Supporting Documentation for Payments

Our review of 57 judgmentally selected disbursements, valued at \$229,360 disclosed that all disbursements were adequately supported, allowable, and properly allocated. The disbursements in our sample covered the period January 1, 2007 through February 29, 2008.

Internal Control Review of Selected Areas

Our review of the internal controls over client intake, budgeting, internal reporting, disbursements, and cost allocation processes revealed that the controls are operating in a manner expected to ensure compliance with the LSC Act and regulations. We did note one policy and three procedures where internal controls needed to be strengthened and are detailed below.

Policy on Salary Advances

The grantee provided a salary advance to an employee in 2007, but the grantee has no policy on granting salary advances. The advance was documented as to the amount advanced, the repayment terms, the employee's acceptance of the terms, and approval by the Executive Director, and was repaid in accordance with the terms of the agreement. While the Executive Director and the acting Controller both stated concerns about salary advances becoming a common practice, the grantee, by allowing an advance, has opened an issue that it needs to formally address as an organizational policy. Without a policy, the grantee could be open to questions of equitable treatment of its employees, and whether its funds are adequately controlled and properly used.

Audit Comment. During the June 24, 2008 visit, the Executive Director provided us with a policy on salary advances that the Board of Directors approved on April 14, 2008. The policy limits advances to extreme hardship, and requires the advance agreement be signed by the employee and Executive Director, be repaid through payroll deduction, and be repaid by the end of the fiscal year. Since we believe this policy adequately addresses our concerns no recommendation is necessary and the finding is considered closed.

Grantee Comment and Action: The Executive Director stated that “NLSP accepts this recommendation. Although NLSP did not have a written policy on salary advances, standards were followed. The salary advance was a result of hardship and paid with Non-LSC funds. The salary advance is the only one given during the current Executive Director’s tenure.” The Executive Director further stated that “The Board of Directors approved a policy on April 14, 2008.”

Additional Approval for Significant Dollar Value Purchases

Our review of transactions and the grantee’s accounting procedures manual, noted that the Executive Director has the authority to approve expenditures, select vendors and award contracts without oversight, and is the only signer on all checks and controls the grantee’s check card. We believe this concentration of authority is an internal control weakness, and that an approval in addition to the Executive Director’s should be instituted for significant purchases, such as those over \$5,000. The Executive Director stated that other staff members already are part of the internal controls in terms of ordering, receiving and processing payments, and that she does not have sole control over the purchase and payment process. Nonetheless, we believe that an additional authorizer for significant dollar value purchases would better ensure fiscal responsibility with regard to the appropriateness of those purchases.

Audit Comment. During our June 24, 2008 visit, the Executive Director provided us a policy approved by the Board of Directors that for any payment equal to or above \$10,000, excluding rental payments previously approved by the board, a second signature is required. Since we believe this policy adequately address our concerns, no recommendation is necessary and the finding is considered closed.

Grantee Comment and Action: The Executive Director stated that “NLSP accepts this recommendation,” and further stated “The Board of Directors approved a policy that for any payment equal to or above \$10,000, excluding rental payments previously approved by the board, a second signature is required.”

Independent Review and Approval of the Executive Director’s Travel Vouchers

The grantee does not have a procedure in place for an independent review and approval of the Executive Director’s travel vouchers. An independent review and approval better ensures that its Executive Director’s travel expenses are reasonable, supported, and in accordance with the grantee’s travel policies.

Audit Comment. Subsequent to our June 24, 2008 visit, the Executive Director provided us with a copy of the grantee's revised Accounting Procedures Manual which included a procedure whereby a second signature is required to authorize reimbursement of the Executive Director's expenses. Since we believe this policy adequately address our concerns, no recommendation is necessary and the finding is considered closed.

Grantee Comment and Action: The Executive Director stated that "NLSP accepts this recommendation," and further stated that "NLSP's revised Accounting Procedures Manual includes a procedure whereby a second signature is required to authorize reimbursement of the Executive Director's expenses."

Documenting Adjustments to Accounting Transactions

During our review of accounting transactions we attempted to verify the accuracy of reallocations. While we determined that the reallocations were correctly recorded, we noted that the documentation supporting the reallocations was missing. The Executive Director stated that she documents the reallocations and provides the information to the accountant to make the necessary adjustments. The accountant acknowledged receiving the documentation from the Executive Director before making the adjustments, but that she did could not find the documentation for us to review. Creating and retaining accounting adjustment documentation is an important internal control, and the Executive Director and acting Controller agreed.

Recommendation 1. The Executive Director should ensure that adjustments to the accounting records are documented and that the documentation is retained in accordance with sound accounting procedures.

Grantee Comment and Action: The Executive Director stated that "NLSP has strengthened its procedures so that all changes are attached to the original documents." Further, the Executive Director stated that "Subsequent to the receipt of the Inspector General draft report; this procedure was added to the revised Accounting Procedures Manual to ensure that adjustments to the accounting records are documented and that the documentation is retained in accordance with sound accounting procedures."

OFFICE OF INSPECTOR GENERAL EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The grantee has taken action to address and correct the deficiencies identified in this report. Based on those actions, we consider the findings closed. The grantee's comments are included in their entirety as Appendix I.

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HEADQUARTERS/NORTHEAST
680 RHODE ISLAND AVENUE, N.E.
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July 28, 2008

Mr. Ronald D. Merryman
Assistance Inspector General for Audit
Legal Services Corporation
Office of Inspector General
3333 K Street, NW, 3rd Floor
Washington, DC 20007-3522

Dear Mr. Merryman:

Enclosed for your review is NLSP's response to the draft report on the results of our audit on Selected Internal Controls at Neighborhood Legal Services.

I appreciate the courtesy that the OIG staff extended to NLSP.

Sincerely,



Brenda Ford Harding

Enclosure



**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**MANAGEMENT RESPONSE TO
REPORT ON SELECTED INTERNAL CONTROLS-**

NEIGHBORHOOD LEGAL SERVICES PROGRAM OF THE DISTRICT OF COLUMBIA

NLSP'S RESPONSE TO RESULTS OF AUDIT

NLSP appreciates the Office of Inspector General providing NLSP with recommendations where internal controls could be strengthened. NLSP has accepted all of the recommendations. NLSP's comments and actions taken, if any, are as follows:

Policy on Salary Advances:

Comment: NLSP accepts this recommendation. Although NLSP did not have a written policy on salary advances, standards were followed. The salary advance was a result of hardship and paid with Non-LSC funds. The salary advance was the only one given during the current Executive Director's tenure.

Action: The Board of Directors approved a policy on April 14, 2008. No further action will be taken.

Additional Approval for Significant Dollars Value Purchases:

Comment: NLSP accepts this recommendation.

Action: The Board of Directors approved a policy that for any payment equal to or above \$10,000, excluding rental payments previously approved by the board, a second signature is required. No further action will be taken.

Independent Review and Approval of the Executive Director's Travel Vouchers

Comment: NLSP accepts this recommendation.

Action: NLSP's revised Accounting Procedures Manual includes a procedure whereby a second signature is required to authorize reimbursement of the Executive Director's expenses. No further action will be taken.

Documenting Adjustments to Accounting Transactions

Comment: NLSP has strengthened its procedures so that all changes are attached to the original documents.

Action: Subsequent to the receipt of the Inspector General draft report; this procedure was added to the revised Accounting Procedures Manual to ensure that adjustments to the accounting records are documented and that the documentation is retained in accordance with sound accounting procedures. No further action will be taken.