



Inspector General
Jeffrey E. Schanz

August 7, 2008

Ms. Cynthia A. Sheehan
Executive Director
Laurel Legal Services, Inc.
306 South Pennsylvania Avenue
Greensburg, PA 15601-3066

Dear Ms. Sheehan:

Enclosed is our final report on the results of our audit on Selected Internal Controls at Laurel Legal Services. We have reviewed your comments related 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,

A black rectangular redaction box covers the signature of Jeffrey E. Schanz.

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 –**

LAUREL LEGAL SERVICES, INC.

RNO 339026

Report No. AU08-02
August 2008

www.oig.lsc.gov

TABLE OF CONTENTS

INTRODUCTION	1
BACKGROUND.....	1
OBJECTIVE	1
SCOPE AND METHODOLOGY	1
OVERALL EVALUATION	2
RESULTS OF AUDIT	3
Supporting Documentation for Contract Payments.....	3
Disbursements.....	3
Internal Control Review of Selected Areas	3
1. Client Intake.....	3
Recommendation 1	4
2. Control of Assets	4
Recommendation 2	4
3. Bank Account Reconciliations	4
Recommendation 3	5
OFFICE OF INSPECTOR GENERAL EVALUATION OF GRANTEE MANAGEMENT COMMENTS	5
GRANTEE MANAGEMENT COMMENTS	APPENDIX I

INTRODUCTION

In November, 2007, management of the Legal Services Corporation (LSC) referred for follow-up to the Office of Inspector General (OIG) 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 identified 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 the 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, and 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 Laurel Legal Services (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, internal reporting and budgeting. To obtain an understanding of the internal controls 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 obtained a basic understanding of the grantee's cost allocation process but did not review the supporting detailed calculations because a contractor performed the cost allocation function.

We conducted fieldwork at the grantee's central administrative office in Greensburg, PA. 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 determined 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 was conducted from March 10, 2008 through March 13, 2008. Documents reviewed pertained to the period January 1, 2007 through March 10, 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

Laurel Legal Services Inc. (grantee) management had taken appropriate actions to address an issue raised by GAO dealing with the lack of supporting documentation for contract payments. Disbursements were adequately supported, allowable and properly allocated to LSC. Also, internal controls over the client intake process, employee benefits and reimbursements, disbursements, internal reporting, and budgeting were operating in a manner expected to ensure compliance with the LSC Act and regulations. However, we did note three areas where internal controls could be strengthened: 1) the grantee had not completed a client intake manual; 2) procedures had not been established to control sensitive assets valued under the \$5,000 capitalization threshold; 3) client trust bank accounts were not reconciled on a monthly basis.

RESULTS OF AUDIT

Supporting Documentation for Contract Payments

The grantee entered into an LSC approved subgrant with an organization to make pro bono referrals for qualified clients and to assist the grantee in establishing and operating a reduced fee panel for qualified clients. The subgrant was for \$30,000 a year and required the subgrantee to submit monthly detailed written statistical information concerning cases handled by pro bono attorneys and a reduced fee panel of attorneys who the subgrantee was required to recruit and monitor. Grantee management indicated that at the time of GAO's review, the grantee had only obtained verbal information from the subgrantee on a monthly basis and the required written statistical information on cases annually.

Grantee management is now requiring the subgrantee to submit the required information on a monthly basis. Our review of the subgrantee's detailed reports for the first two months of 2008 confirmed that the grantee is now obtaining the required written information from the subgrantee.

Disbursements

Our review of a 132 judgmentally selected disbursements, valued at \$73,543 disclosed that all disbursements reviewed were adequately supported, allowable, and properly allocated to LSC. The disbursements in our sample covered the period January 1, 2007 through March 10, 2008.

Internal Control Review of Selected Areas

Our review of the internal controls over the client intake, internal reporting, budgeting, employee benefits and reimbursements, and disbursements processes revealed that the controls are operating in a manner expected to ensure compliance with the LSC Act and LSC regulations. We did note three areas where internal controls could be strengthened:

1) Client intake

The grantee had not developed a client intake manual. However, during our site visit we were told by grantee management that it was in the process of developing a client intake manual. Developing a procedures manual that provides the step by step instructions to be taken by intake personnel from the time a client initiates contact to the follow-up after

service has been offered would serve as a good control to ensure all client intake is consistently conducted in accordance with LSC regulations.

Recommendation 1 - Grantee management should complete a client intake procedures manual and periodically update the manual as procedures change.

Grantee Management Comments The Executive Director stated:

“The Intake Manual currently in progress will be completed and implemented prior to September 26, 2008, and staff training will be conducted. The Intake Manual will be updated as procedures change.”

2) Control of Assets

The grantee did not have procedures for controlling sensitive assets that were under its \$5,000 threshold for capitalization. While the capitalization threshold is an appropriate item to consider when determining the amount of control to exercise over an asset, it is not the only consideration that should be used. Some assets are sensitive, can easily be put to personal use, or cause financial hardship on an organization if they need to be continually replaced before their useful life has expired. For example, laptop computers would not meet the \$5,000 capitalization threshold, but are sensitive assets that contain sensitive information, easily put to personal use, and could cause a financial burden on an organization if they had to be replaced every few months. Controlling sensitive assets helps ensure that assets are adequately protected, increases the probability of recovering lost or stolen items, and reduces overall operating costs.

Recommendation 2 - Grantee management should review all assets and determine which assets should be controlled. In making this determination, grantee management should use broader criteria than just the capitalization threshold.

Grantee Management Comments The Executive Director stated:

“On July 28, 2008, at the recommendation of the Fiscal Committee, the Board of Directors of Laurel Legal Services adopted an amendment to the Accounting Policy, which requires a listing of all equipment purchased after July 1, 2007, having value exceeding \$50.00, which might be adapted to personal use and is easily transportable. The Fiscal Department will immediately begin the preparation of this list and complete it before the 2007-2008 independent audit, scheduled for August 11, 2008.”

3) Bank Account Reconciliations

The current grantee policy requires the Greensburg office to reconcile client trust accounts maintained by the branch offices on a quarterly basis rather than on a monthly basis as required by the LSC Accounting Guide for Recipients. LSC grantees are held to high ethical standards of accountability by their local or state bars in handling of client funds. Monthly reconciliation procedures will increase the likelihood of timely discovery of any irregular disbursements from client trust accounts and ensure that errors are identified and corrected timely.

Recommendation 3 - Grantee management should implement and follow procedures to ensure that all cash accounts are reconciled on a monthly basis.

Grantee Management Comments The Executive Director stated:

“On July 28, 2008, on the recommendation of the Fiscal Committee, the Board of Directors of Laurel Legal Services adopted an amendment to its Accounting Policy requiring that all cash accounts be reconciled by the Fiscal Department in Greensburg on a monthly basis. This policy has already been implemented.”

OFFICE OF INSPECTOR GENERAL EVALUATION OF GRANTEE MANAGEMENT COMMENTS

Grantee management action taken or planned addresses the deficiencies identified in this report. Therefore, we consider the findings closed. The grantee's comments are included in their entirety as Appendix I.



LAUREL LEGAL SERVICES, INC.

SERVING WESTMORELAND, INDIANA, ARMSTRONG, CLARION, CAMBRIA AND JEFFERSON COUNTIES

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July 29, 2008

Ronald D. Merryman
Assistant Inspector General for Audit
Legal Services Corporation
3333 K Street, N.W. - 3rd Floor
Washington, D.C. 20007-3522

**RE: LAUREL LEGAL SERVICES, INC.
Response to Draft Report on Results of Audit on
Selected Internal Controls - Recipient No. 339026**

Dear Mr. Merryman:

Enclosed please find Laurel Legal Services, Inc. responses to the recommendations and actions taken as per your request in a letter dated June 23, 2008.

Should you have any questions, please feel free to contact me at (724) 836-2211, Extension 1418.

Sincerely,



Cynthia A. Sheehan
Executive Director
For Laurel Legal Services, Inc.

CAS/les
Enclosure

LAUREL LEGAL SERVICES, INC.

**RESPONSE TO LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL
DRAFT REPORT ON SELECTED INTERNAL CONTROLS**

- 1. Response to Recommendation 1 - Grantee management should complete a client intake procedures manual and periodically update the manual as procedures change.**

Response of Laurel Legal Services, Inc.

The Intake Manager for Laurel Legal Services is currently in the process of writing an Intake Manual. In January, 2008, Laurel Legal Services was awarded a Renewal Grant for 2008, subject to several grant conditions, including a requirement that "On or before September 26, 2008, Recipient shall submit to the LSC Office of Program Performance a progress report which shall include ... Recipients efforts to provide more coordination of the intake system." The Intake Manual currently in progress will be completed and implemented prior to September 26, 2008, and staff training will be conducted. The Intake Manual will be updated as procedures change.

- 2. Response to Recommendation 2 - Grantee management should review all assets and determine which assets should be controlled. In making this determination, grantee management should use broader criteria than just the capitalization threshold.**

Response of Laurel Legal Services, Inc.

On July 28, 2008, at the recommendation of the Fiscal Committee, the Board of Directors of Laurel Legal Services adopted an amendment to the Accounting Policy, which requires a listing of all equipment purchased after July 1, 2007, having value exceeding \$50.00, which might be adapted to personal use and is easily transportable. The Fiscal Department will immediately begin the preparation of this list and complete it before the 2007-2008 independent audit, scheduled for August 11, 2008.

- 3. Response to Recommendation 3 - Grantee management should implement and follow procedures to ensure that all cash accounts are reconciled on a monthly basis.**

Response of Laurel Legal Services, Inc.

On July 28, 2008, on the recommendation of the Fiscal Committee, the Board of Directors of Laurel Legal Services adopted an amendment to its Accounting Policy requiring that all cash accounts be reconciled by the Fiscal Department in Greensburg on a monthly basis. This policy has already been implemented.