



Inspector General
Jeffrey E. Schanz

August 8, 2008

Ms. Wendy S. Owens
Executive Director
Wyoming Legal Services, Inc.
441 S. Center Street, Suite 200
Casper, WY 82601

Dear Ms. Owens:

Enclosed is our final report on the results of our audit on Selected Internal Controls at Wyoming Legal Services, Inc. We have reviewed your response with regard to the findings in our draft report and believe they address Recommendations 1, 2, 4, and 5 of this report. Based on your comments, we consider the recommendations closed.

While your response to the draft report described actions to address Recommendation 3 for the current period, it did not describe actions to ensure that a process is in place to update percentages used to allocate costs in accordance with CFR 45 Part 1630 for future periods. Therefore, Recommendation 3 will remain open pending receipt of a correction action plan documenting the corrective actions to address this recommendation. The plan is due no later than 30 days after the date of this report.

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

Sincerely,

A large black rectangular redaction box covers the signature area of the letter.

Jeffrey E. Schanz
Inspector General

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

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**



**REPORT ON SELECTED INTERNAL
CONTROLS –**

WYOMING LEGAL SERVICES, INC.

RNO 751038

Report No. AU08-03

August 2008

www.oig.lsc.gov

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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 Wyoming Legal Services, Inc. (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 budgeting, internal reporting, disbursements, employee reimbursements, and benefits. 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 conducted fieldwork at the grantee's central administrative office in Casper, Wyoming. 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 was conducted from March 31, 2008 through April 3, 2008. Documents reviewed pertained to the period January 1, 2007 through March 31, 2008. We also reviewed documents pertaining to the late fees that were noted in GAO's report. 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

Wyoming Legal Services, Inc. (grantee) management had taken appropriate steps to address issues raised by GAO by locating missing documentation and implementing controls to prevent incurring late fees in the future. Disbursements tested were adequately supported, allowable and allocable to LSC except for disbursements for late fees of \$961 and unallowable dues of \$3,725. Also, internal controls over the budgeting, internal reporting, disbursements, employee reimbursements, and benefits processes were operating in a manner expected to ensure compliance with the LSC Act and regulations. However, we did note that the grantee's internal controls could be strengthened in the areas of: (1) internal management reporting, (2) allocating costs, (3) conducting physical inventories of fixed assets, and (4) developing and using a strategic plan.

RESULTS OF AUDIT

Follow-up on Instances Identified by GAO

GAO identified two instances of internal control weaknesses at the grantee dealing with insufficient documentation and late fees.

1. Insufficient Documentation

GAO's final report referred to the insufficient documentation instance by stating, "At a third grantee, the grantee underwent a change in management in August 2006, and the current Executive Director was unable to locate many of the records and invoices related to payments made under the previous Executive Director."

The current grantee Executive Director confirmed that with the change of management, she was unable to locate records and invoices related to payments under the previous Executive Director. She explained that in addition to the change in management, the location of the main office changed from Lander, Wyoming to Casper, Wyoming and the transition did not go smoothly. However, subsequent to the transition, more records and invoices related to payments under the previous Executive Director have been located and moved to the Casper office. Based on our review, we were able to determine that approved purchase orders and invoices were maintained in the grantee's Casper office supporting all of the grantee's disbursements for the period January 1, 2005 through July 31, 2006.

We were able to determine that the grantee was currently maintaining sufficient documentation through our review of a sample of disbursements made in 2007 and 2008. (See the section on Disbursements Review).

2. Late Fees

GAO reported that among the control weaknesses found were grantees using LSC grant funds to pay for late fees. Our review of the three instances identified by GAO where this grantee used LSC funds to pay late fees and the five instances that we identified in our review of 2007 and 2008 disbursements indicated that the grantee has now implemented steps to preclude the incurrence of late fees in the future. (See the section on Disbursements Review).

Disbursements Review

We reviewed a sample of grantee disbursements for the period January 1, 2007 through March 31, 2008. Our sample was judgmentally selected and included 183 transactions amounting to \$68,709. We also included in our sample three disbursements totaling \$ 834 from 2006 that were identified by GAO as late fees incurred by the grantee. We concluded that, except for the following, the disbursements were adequately supported, allowable and allocable to LSC:

1. Late Fees

Late fees are not generally recognized as reasonable and necessary for the performance of LSC grants. A good financial management system is designed to prevent the incurrence of unreasonable or unnecessary expenses such as penalties or late fees. Under LSC regulation 45 C.F.R. § 1630.3 costs may be questioned if they are not reasonable and necessary for the performance of the grant. "A cost is reasonable if" among other factors "in its nature or amount, it does not exceed that which would be included by a prudent person under the same or similar circumstances."

Included in our sample of disbursements were three late fees identified by GAO that were incurred in 2006 and five late fees in the January 1, 2007 to March 31, 2008 time period. The three late fees that occurred in 2006 and identified by GAO totaled \$834. The late fees we identified in our sample of disbursements from 2007 and 2008 totaled \$127 and were for the late payment of state bar dues, postage charges (metered), and storage unit rentals.

The late fees were incurred because of a breakdown in controls under the previous Executive Director's administration and because invoices were not routed to the recently relocated main office by vendors (postal charges, storage unit rentals) and staff (bar dues). The grantee has implemented steps to preclude the incurrence of late fees in the future. Notwithstanding the improved internal control, we consider the late fees of \$961 (\$834 in 2006 and \$127 in 2007-2008) to be questioned costs. We will refer the questioned costs to LSC for its review in accordance with LSC regulation 45 C.F.R. §1630.7.

2. Dues

Pursuant to 45 CFR §1627.4, "LSC funds may not be used to pay membership fees or dues to any private or nonprofit organization, whether on behalf of a recipient or an individual."

Our sample of disbursements disclosed two payments charged to LSC for membership dues totaling \$ 3,725 to the National Legal Aid & Defender Association (NLADA) for the years 2007 (\$1,855) and 2008 (\$1,870). The grantee's bookkeeper indicated that at the time the payments were made she was unaware that the dues were unallowable under LSC regulations. We consider the dues of \$3,725 to be questioned costs within the meaning of Part 1630, and we intend to refer these costs to LSC for review in accordance with 45 C.F.R. § 1630.7.

Recommendation 1. The Executive Director should take the necessary steps to ensure that dues are not charged to LSC in the future.

Grantee Management Comments The Executive Director stated:

"I have directed our Financial Professional to ensure that only those dues permissible under 45 CFR §1627.4 may be charged to LSC funds. In particular only attorney license fees imposed by the Wyoming State Bar shall be charged to LSC funds."

Internal Control Review of Selected Areas

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

1. Internal reporting

The Accounting Guide for LSC Recipients states that monthly management reports should be prepared for the Executive Director showing total program budget versus actual as well as funding source budget versus actual.

The grantee prepared financial reports for the Board of Directors meetings held every two months but did not include the detailed information required by the Guide.

Recommendation 2. The Executive Director should ensure that monthly internal management reports are prepared with sufficient detail to provide oversight and internal control over financial operations as required by the Accounting Guide for LSC Recipients.

Grantee Management Comments The Executive Director stated:
“I have directed our Financial Professional to prepare monthly internal management reports for my and my board chair’s review. Such reports shall be prepared with the detail recommended by LSC/OIG.”

2. Allocation

Pursuant to CFR 45 §1630.3 (c), “[a] cost is allocable to a particular cost objective, such as a grant, project, service, or other activity, in accordance with the relative benefits received.” The section on allocating costs in the grantee’s accounting manual is consistent with the cost allocation requirements of Part 1630.

However, the grantee does not follow the written procedure in its accounting manual for allocating costs. The grantee’s allocation practice does not specifically identify expenses associated with a particular funding source. Rather, it uses predetermined percentages for allocating costs that have been used for the past several years. While the actual proportion of funding and corresponding allocation percentages may not actually change much from year to year, without reviewing the allocation percentages periodically, the grantee can not be assured that costs are being properly allocated to LSC.

Recommendation 3. The Executive Director should review periodically and update as needed the percentages used to allocate costs to the various funding sources in accordance with LSC regulation 45 CFR Part 1630 and the grantee’s accounting manual.

Grantee Management Comments The Executive Director stated:

“We have recently been awarded some new funding sources. I will be reviewing and updating percentages within the next week to account for those new funding sources.”

3. Fixed Assets

The Accounting Guide for LSC Recipients states that a physical inventory of fixed assets should be conducted every three years. The grantee has not performed these physical inventories.

In January 2007 the grantee, for the first time, developed a listing of fixed assets in its three offices. The grantee plans to conduct a physical inventory of the fixed assets on this list before the end of its fiscal year.

Recommendation 4. The Executive Director should conduct physical inventories every three years as required by the Accounting Guide for LSC Recipients.

Grantee Management Comments The Executive Director stated:

“A complete inventory will be completed by the end of FY 2008. Inventories will be scheduled on a three year basis, with the next inventory to take place during 2011.”

4. Formalized Procedures

A good internal control environment includes a strategic plan with benchmarks, a formal risk assessment process, and the periodic performance of internal control evaluations.

The grantee is working on, but has not yet completed, a strategic plan. It also does not have a formal process for assessing risk and performing internal control evaluations. We were advised that the grantee Executive Director informally performed some of these tasks through monthly visits to branch offices.

Recommendation 5. The Executive Director should complete the grantee’s strategic plan and formalize a process for assessing risk and performing periodic internal control evaluations.

Grantee Management Comments The Executive Director stated:

“At the next WLS board retreat on August 1, 2008, further work will be done on the strategic plan. Before the end of FY 2008 I will prepare and present to the Board a process for assessing risk and performing periodic internal control evaluations.”

**OFFICE OF INSPECTOR GENERAL EVALUATION OF GRANTEE
MANAGEMENT COMMENTS**

The grantee has taken action to address and correct deficiencies identified in Recommendations 1, 2, 4, and 5 of this report. Based on those actions, we consider the findings closed.

While the grantee's response to the draft report described actions to address Recommendation 3 for the current period, it did not describe actions to ensure that a process is in place to update percentages used to allocate costs in accordance with CFR 45 § 1630 for future periods. Therefore, Recommendation 3 will remain open pending receipt of a corrective action plan documenting the corrective actions to address this recommendation. The plan is due no later than 30 days after the date of this report.



Wyoming Legal Services

Main Office
441 South Center St.
Suite 200
Casper, WY 82601
307-237-5266
1-888-737-5266
Fax: 307-237-5325

Cheyenne Office
1603 Capitol Ave
Suite 405
Cheyenne, WY 82001
307-634-1566
1-888-634-1566
Fax: 307-634-1370

Lander Office
PO Box 1160
Lander, WY 82520
307-332-6626
1-800-442-6170
Fax: 307-332-5763

APPENDIX

Promoting Equal Access to Justice Throughout Wyoming

July 24, 2008

Legal Services Corporation
Office of Inspector General
3333 K St., NW, 3rd Floor
Washington, DC 20007

RE: Report on Selected Internal Controls

To Whom It May Concern:

The following is Wyoming Legal Services' response to the draft report on the results of the audit on Selected Internal Controls:

Recommendation 1: Dues: The Executive Director should take the necessary steps to ensure that [NLADA] dues are not charged to LSC in the future.

Response: I have directed our Financial Professional to ensure that only those dues permissible under 45 CFR §1627.4 may be charged to LSC funds. In particular, only attorney license fees imposed by the Wyoming State Bar shall be charged to LSC funds.

Recommendation 2: Internal reporting: The Executive Director should ensure that monthly internal management reports are prepared with sufficient detail to provide oversight and internal control over financial operations as required by the Accounting Guide for LSC Recipients.

Response: I have directed our Financial Professional to prepare monthly internal management reports for my and my board chair's review. Such reports shall be prepared with the detail recommended by LSC/OIG.

Recommendation 3: Cost allocation: The Executive Director should review periodically and update as needed the percentages used to allocate costs to the various funding sources in accordance with LSC regulation 45 CFR part 1630 and the grantee's accounting manual.

Response: We have recently been awarded some new funding sources. I will be reviewing and updating percentages within the next week to account for those new funding sources.

Recommendation 4: Fixed assets: The Executive Director should conduct physical inventories every three years as required by the Accounting Guide for LSC Recipients.

Response: A complete inventory will be completed by the end of FY 2008. Inventories will be scheduled on a three year basis, with the next inventory to take place during FY 2011.



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Recommendation 5: Formalized procedures: The Executive Director should complete the grantee's strategic plan and formalize a process for assessing risk and performing periodic internal control evaluations.

Response: At the next WLS board retreat on August 1, 2008, further work will be done on the strategic plan. Before the end of FY 2008 I will prepare and present to the Board a process for assessing risk and performing periodic internal control evaluations.

If you have any questions or require anything further, please do not hesitate to contact me.

Very truly yours,



Wendy S. Owens
Executive Director
WYOMING LEGAL SERVICES, INC.