

LEGAL SERVICES CORPORATION



OFFICE OF INSPECTOR GENERAL

Legal Action of Wisconsin, Inc.

RNO 550010

Final Report on Selected Internal Controls

Report No. AU 24-01

January 2024

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LEGAL SERVICES CORPORATION

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January 11, 2024

Deedee Peterson
Executive Director
Legal Action of Wisconsin, Inc.
633 W Wisconsin Avenue
Suite 2000
Milwaukee, WI 53203

Dear Ms. Peterson,

Enclosed is the Legal Services Corporation (LSC) Office of the Inspector General's (OIG) Final Report for our audit of selected internal controls at Legal Action of Wisconsin, Inc. (LAW). Appendix III of the final report includes LAW's comments on the draft report in their entirety.

We consider your responses to Recommendations 9 and 11 as fully responsive and consider these recommendations closed.

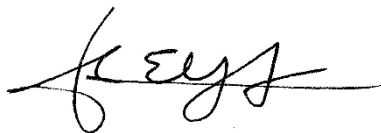
We consider the proposed actions for Recommendations 3, 4, 10, and 12 as responsive, and the proposed actions for Recommendations 1, 2, 5, 6, 7, 8, and 13 as partially responsive. These 11 recommendations will remain open until we are provided with the items mentioned on pages 14 and 15, OIG Evaluation of Grantee Management Comments, of the attached final report.

We are referring questioned costs totaling \$8,534 of unsupported transactions to LSC Management for review and action.

Please send us your response to close out the open recommendations, along with supporting documentation, within six months of the date of the final report. We thank you and your staff for your cooperation and look forward to receiving your submission by July 11, 2024.

If you have any questions, please contact Roxanne Caruso, Assistant Inspector General for Audit, at (202) 295-1582. We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,



Thomas Yatsco

Enclosure

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Executive Summary

Legal Action of Wisconsin, Inc. (LAW) Report on Selected Internal Controls

Objective

The objective was to assess the adequacy of select internal controls at LAW and determine whether costs were supported and allowed under the LSC Act of 1974, as amended, the Accounting Guide for LSC Recipients, as well as other applicable laws and regulations. To carry out the objective, we evaluated select internal controls in specific financial and operational areas to ensure that costs were adequately supported and allowed under the LSC Act, and other LSC regulations and guidelines.

The audit period was January 1, 2021, through September 30, 2022.

What We Found

We determined that LAW adequately designed and properly implemented internal controls for grantee operations and oversight in the areas of management reporting and budgeting, contracting, derivative income, cost allocation, payroll, and grantee use of Coronavirus Aid, Relief, and Economic Security (CARES) Act funds. However, LAW needs to strengthen its practices or formalize internal controls in writing for credit cards, general ledger and financial controls, disbursements, fixed assets, client trust funds, and employee benefits.

Most findings resulted from inadequate recordkeeping, missing documentation, policies noncompliant with the LSC Accounting Guide, the sudden changes to grantee operations brought on by the COVID-19 pandemic, and a lack of segregation of duties. We identified questioned costs totaling \$8,534 due to 13 credit card transactions for which we were unable to determine the purpose of the expenditures.

What We Recommend

This report includes 13 recommendations primarily addressing the need for grantee management to ensure adequate internal controls, including documentation of reviews of transactions and bank reconciliations.

Management's Response

LAW management agreed with two recommendations, partially agreed with ten, and disagreed with one.

We considered LAW's actions for two recommendations as fully responsive, and these recommendations are considered closed.

We considered LAW's proposed actions for four recommendations as responsive, and for the other seven as partially responsive. These 11 recommendations will remain open until LAW notifies us in writing that the findings have been addressed and provides appropriate supporting documentation.

We are referring questioned costs totaling \$8,534 to LSC management for review and action.

Table of Contents

Introduction	1
Background.....	1
Objective	2
Audit Results.....	2
Credit Cards	3
Recommendation 1	6
Recommendation 2:.....	6
Recommendation 3.....	6
Recommendation 4.....	6
Recommendation 5.....	6
General Ledger and Financial Controls	7
Recommendation 6.....	9
Recommendation 7.....	9
Recommendation 8.....	10
Recommendation 9.....	10
Disbursements	10
Recommendation 10	11
Fixed Assets	11
Recommendation 11	12
Client Trust Funds	12
Recommendation 12	13
Employee Benefits	13
Recommendation 13	13
OIG Evaluation of Grantee Management Comments	14
Appendix I: Scope & Methodology.....	16
Appendix II: Assessment of Internal Control Components and Principles	19
Appendix III: Grantee Management Comments.....	21

Introduction

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of select internal controls in place at Legal Action of Wisconsin, Inc. (LAW, grantee, or recipient) for grantee operations and oversight. We conducted audit work remotely due to coronavirus disease 2019 (COVID-19) pandemic safety concerns.

The Accounting Guide for LSC Recipients (2010 Edition)¹ (LSC Accounting Guide), Chapter 3, requires LSC grantees to establish and maintain adequate accounting records and internal control procedures. The LSC Accounting Guide defines internal control as follows:

The 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 [LSC] regulations and [applicable Federal] laws that have a direct and material effect on the program.

The LSC Accounting Guide further requires that each grantee relies on its own system of internal controls and procedures to prevent fraud and meet management's financial information needs.

Background

LAW is Wisconsin's largest non-profit law firm providing free civil legal services to qualifying Wisconsin residents. The grantee is headquartered in Milwaukee and serves clients statewide from six offices. LAW's mission is to "deliver exceptional civil legal services and structural change advocacy, free of cost, to those most in need."

According to the audited financial statements for the year ending December 31, 2021, LAW received total support and revenue of \$13,272,293. LSC provided \$5,286,720, or about 40 percent of the total. In 2020, LAW accepted a \$421,529 LSC COVID-19 Response Grant as well as a \$25,000 LSC Telework Capacity Building Grant as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

¹ Effective January 1, 2023, the LSC Accounting Guide was superseded by the LSC Financial Guide. Because the audit period was January 1, 2021, to September 30, 2022, we used the LSC Accounting Guide as criteria for our findings. However, we ensured that all recommendations made in the report are consistent with the new LSC Financial Guide.

Objective

Our objective was to assess the adequacy of select internal controls at LAW and determine whether costs were supported and allowed under the LSC Act of 1974, as amended; the LSC Accounting Guide; and other applicable laws and regulations.

To accomplish the audit objective, we evaluated select internal controls in specific financial and operational areas. We reviewed and tested internal controls for credit cards, general ledger and financial controls, disbursements, client trust funds, fixed assets, management reporting and budgeting, contracting, derivative income, cost allocation, payroll, and CARES Act funds.

The audit period under review was January 1, 2021, through September 30, 2022.

Audit Results

We determined that LAW adequately designed and properly implemented internal controls in the following areas:

- Management Reporting and Budgeting
- Contracting
- Derivative Income
- Cost Allocation
- Payroll
- CARES Act funds

However, we also found that LAW should strengthen its practices or formalize, in writing, internal controls over the following areas:

- Credit Cards
- General Ledger and Financial Controls
- Disbursements
- Fixed Assets
- Client Trust Funds
- Employee Benefits

Credit Cards

We reviewed LAW's policies and procedures, as well as practices in place, relating to credit cards² to determine whether they adhere to LSC regulations and guidelines.

Our review found that the policies and procedures were adequate and comparable to the LSC Accounting Guide. However, we found that LAW needed to strengthen controls over credit card access and purchases—based on our review of 131 transactions totaling approximately \$86,000.³ Some transactions were missing supporting documentation, including receipts and prior approvals. Additionally, the portion of each transaction allocated to LSC funds was sometimes unclear. We also noted a lack of credit card user agreement forms and inadequate review of the Executive Director's credit card use. We are questioning \$8,534 because there was not adequate documentation to support the purposes of the transactions or to explain if they were allowable uses of LSC funds. We will refer the amount to LSC management for review and action.

We Were Unable to Determine to Which Grants Fifteen Credit Card Transactions Were Allocated

For most transactions, we were able to determine the amount of funds allocated to the LSC grant. However, there was one grant code in the accounting system that included LSC funds for which LAW could not provide the exact amount allocated to LSC. We found 15 credit card expenditures, totaling \$24,032, that used this funding code.

The lack of clearly documented allocations is not in alignment with LSC guidelines. According to the LSC Accounting Guide, Sections 3-5.4(c) and 3.5-6, an effective method must be established to record and categorize disbursements and summarize them for recording in the general ledger. Each entry to the general journal should be fully described and adequately documented.

LAW management stated that determining the allocations for the 15 transactions would be too time-consuming, partly due to turnover in the finance department.

Unsupported or poorly referenced entries are difficult to trace, making it hard to detect irregularities, increasing the risk of fraud or misappropriation. Incomplete, inaccurate, or unsupported entries to the general ledger increase the possibility that the financial data may not accurately represent the recipient's financial position and potentially increase audit costs.

² LAW had one credit card account with eight credit cards, issued to the Executive Director, the Chief Financial Officer (CFO), the Information Technology (IT) Manager, and an office manager or managing attorney at each of the five field offices. Transactions from all eight cards were included in one monthly card statement.

³ We judgmentally selected six credit card statements paid during the audit period, totaling \$158,771. From the six statements, we judgmentally selected 131 transactions, totaling \$86,285 for detailed testing.

Fifteen Credit Card Transactions Were Missing Support

For 15 of the 131 transactions tested, LAW did not maintain adequate documentation to support the purpose of the transactions and explain why they were LSC allowable. We are questioning 13 transactions,⁴ totaling \$8,534. Seven of these transactions, totaling \$1,500, also had unclear allocations to LSC Funds, as described in the prior subsection. Two of the 13 questioned transactions were also missing receipts. See additional details in Figure 1.

Figure 1: Credit Card Transactions Missing Support

No. of Transactions	Vendor Type	Amount	Statement of Purpose Provided?	Receipt Provided?	Allocated to LSC Funds?	Questioned Cost?
7	Restaurant Gift Cards	\$1,500	N	Y	Unable to Determine	Y
3	Hotels	\$2,798	N	Y	Y	Y
2	Food	\$3,859	N	N	Y	Y
1	Hotel	\$447	N	Y	Y	N ⁵
1	Food	\$377	N	Y	Y	Y
1	Shipping	\$12	N	Y	N	N

The lack of supporting documentation contrasts with LSC guidance and LAW’s policies and procedures. The LSC Accounting Guide, Section 3-5.4(c), states, “An organized method shall be established to accumulate and file all documents relating to a particular disbursement for future reference.” Additionally, Section 3-5.4(a) says, “The receipt of goods and accuracy of invoices should be verified and documented.” LAW’s Accounting Policies & Procedures define proper documentation as a valid, original invoice, receipt, advance, or expense reimbursement request detailing the following, at a minimum: itemization of goods or services, date of delivery or service, amount due, and vendor name and address.

Additionally, 45 C.F.R. § 1630.5(a) states, in part, that costs under LSC grants are allowable only if they are adequately and contemporaneously documented in business records and the costs are reasonable and necessary in the performance of the grant or contract.

⁴ Two of the 15 transactions with inadequate support will not be questioned: although one transaction lacked adequate support, we were able to determine by other means that it was an allowable use of LSC funds; the other was allocated to a funding source other than LSC.

⁵ While this transaction was missing a statement of purpose, we were able to determine the purpose of the transaction and do not consider it a questioned cost.

LAW management stated that they believed they provided adequate supporting documentation; however, after multiple requests, we determined that they were unable to provide proper documentation as defined in their Accounting Policies & Procedures.

Insufficient supporting documentation may result in staff incurring credit card charges without the knowledge and approval of appropriate management, or at unacceptable prices or terms. Without adequate internal verification, funds may be disbursed for goods and services not received or transactions made in the wrong amount.

Thirty-Six Credit Card Transactions Were Made by Grantee Staff Without Credit Card Agreement Forms

LAW's credit card policies require all credit cardholders to sign a credit card user agreement. However, LSC guidance suggests that all credit card users should sign such an agreement. While the eight LAW staff members with credit cards issued in their names had signed credit card user agreement forms, we learned during testwork and interviews that five employees without signed credit card user agreements used credit cards belonging to authorized cardholders. We found 36 out of 131 transactions, totaling \$6,382, made by staff without credit card user agreements.

Of these, 13 transactions, totaling \$3,806, were missing prior approvals from the authorized cardholder. Eight of the 13 transactions, totaling \$2,487, were missing any type of approval, and five, totaling \$1,319, were made by non-cardholders who notified the cardholders after completing the transaction.

LAW's Accounting Policies & Procedures do not state that these authorized users can share or delegate others to use their card. Rather, they state that only the Executive Director, CFO, IT Manager, and managing attorneys should carry a credit card issued in their name. The Appendix to the LSC Accounting Guide provides guidelines for developing a form containing relevant credit card policies for employees who use credit cards to review and sign. In addition, an LSC OIG article on credit card fraud prevention recommends that only credit card account holders use the cards in order to maintain the security of credit card accounts⁶

LAW management stated that the non-cardholders should not have had credit card agreements because they were not authorized to make charges without permission; they were performing administrative functions at the direction of the authorized cardholders.

Without clearly defined financial authority outlined on credit card user agreement forms, LAW employees may use the grantee's credit cards incorrectly or for unauthorized expenses. A signed agreement demonstrates that credit card users have read the credit card policies and are responsible for knowing and adhering to them.

⁶ The LSC OIG Fraud Corner article – Credit Card Fraud Prevention, contains examples of credit card fraud and misuse as well as best practices associated with credit card use. The full article can be found at https://www.oig.lsc.gov/images/pdfs/invest_results/Fraud_Corner_Credit_Card_Fraud_Final_Signed.pdf

LAW's Board of Directors Were Not Reviewing the Executive Director's Credit Card Expenses

Through interviews with management, we learned that there was inadequate Board oversight of the Executive Director's credit card expenses. The CFO, who is the Executive Director's subordinate, approves the Executive Director's transactions and statements. The CFO agreed that the Executive Director's expenses should be sent to the Board of Directors quarterly.

The lack of Board oversight of these expenses does not align with LSC guidance. LSC Program Letter 18-3 recommends that written policies be adopted and approved by each recipient's Board of Directors to ensure adequate oversight of Executive Director expenses. The Executive Director's expense reports, credit card statements, and travel reimbursements should be approved by a member of the Board of Directors and not by a subordinate of the Executive Director or by the Executive Director themselves. The LSC OIG Fraud Corner article – Credit Card Fraud Prevention – also recommends that a designated Board member review the Executive Director's credit card charges regularly.

In March 2023, LAW management stated that the Board President had reviewed the Executive Director's 2022 expenses. LAW management acknowledged that their previous practices and policies did not include Board review of Executive Director credit card transactions and plan to update the policy.

Without Board review, the Executive Director's purchases could be made at unacceptable prices or terms.

We recommend that the Executive Director:

[Recommendation 1](#): Implement controls to ensure adequately referenced transaction entries are made to the general ledger, and source documents are traceable to the general ledger. Grant codes should be coded in the accounting system and included with supporting documentation.

[Recommendation 2](#): Ensure all credit card charges are supported with the required documentation, in accordance with LAW's policies and procedures.

[Recommendation 3](#): Enhance credit card policies to require all credit card users to read and sign a credit card user agreement form. The agreement may include repayment terms and conditions for personal use or misuse of the card. The signed agreements should be retained in a central file.

[Recommendation 4](#): Update LAW's accounting manual to include a policy for card users to obtain approval from the cardholder, documented by date, prior to incurring credit card charges and paying card statement balances.

[Recommendation 5](#): Work with the Board of Directors to implement controls for the Board to document a review of the Executive Director's expense reports, credit card statements, and

travel reimbursements. Such controls could include revising the Board's by-laws to include such reviews or creating a standing agenda item for the Board's quarterly meetings.

General Ledger and Financial Controls

To evaluate LAW's general ledger and financial controls, we reviewed their policies, interviewed management, and performed testwork of specific financial processes to determine if they were adequate and adhered to LSC regulations and guidelines. Our review included LAW's processes and policies over bank reconciliations⁷ and cash receipts⁸.

We determined that the grantee's written policies were comparable to the LSC guidelines. We found no issues with the trial balance reports. However, we found that LAW did not always comply with these policies. Some bank reconciliations had no evidence of review, did not balance, and were prepared late. We also found outstanding checks and inadequate documentation of cash receipts.

There Was No Documentation of Bank Reconciliations Review

For 49 of 50 tested bank reconciliations, we found that the reviewer did not document their review with a signature or date.

This lack of documentation of review is in contrast with LSC guidance. The LSC Accounting Guide, Section 3-5.2(d) states that reconciliations should be reviewed and approved by a responsible individual and documented by signature and date.

LAW management stated that the missing reviews were due to short staffing, illnesses during the pandemic, and parental and medical leave taken by staff members.

For the petty cash accounts, we noted a discrepancy between the reconciliation forms and written policies. The forms included signature fields for a Custodian and Managing Attorney, but LAW's policies state that the Managing Attorney is the custodian of petty cash for a given office. This may have caused staff confusion and contributed to the exceptions noted in bank reconciliations.

If reconciliations are not reviewed by an appropriate individual, outstanding checks or out-of-balance conditions may not be detected in a timely manner, and financial statement balances could be incorrect. Also, management may be unable to detect and address potential fraud promptly.

⁷ We evaluated a total sample of 50 judgmentally selected bank account reconciliations from all 16 of LAW's bank accounts active during the audit period. This sample included five petty cash accounts as well as 10 client trust reconciliations that we tested during our review of client trust fund internal controls.

⁸ We reviewed 15 judgmentally selected cash receipt log entries to evaluate whether LAW maintained the logs accurately and in accordance with their policies and LSC guidance.

LAW Did Not Complete Four Bank Account Reconciliations

Four bank account reconciliations in our sample were incomplete because the balances LAW recorded on the reconciliations did not match the balances on the bank statements. The discrepancies ranged from \$4 to \$602.

According to the LSC Accounting Guide, Section 3-5.2(d), bank statements must be reconciled monthly to the general ledger.

Management stated that illnesses and short staffing during the pandemic, along with subsequent leave, interfered with the normal reconciliation process.

If accounts are not reconciled accurately and on time, financial statement balances may not reflect the actual funds held in LAW's bank accounts.

LAW Performed Some Bank Reconciliations Late

Three reconciliations in our sample of 50 reconciliations were prepared late, ranging from two weeks to several months after the preparation deadline. These three were prepared manually rather than in the accounting system. Additionally, we were unable to determine when LAW prepared 35 reconciliations in our sample because the accounting system did not reliably document the preparation date. Instead, the reconciliations showed when the reports were generated.

This contrasts with LAW's Accounting Policies & Procedures, which state, "All bank accounts shall be reconciled by the end of the next month."

Management stated that the untimely preparation of reconciliations was due to short staffing and illnesses during the pandemic, and subsequent parental and medical leave taken by staff.

If reconciliations are not performed on time, outstanding checks or out-of-balance conditions may not be detected in a timely manner, and financial statement balances may not be accurate.

Additionally, as noted in the LSC OIG Fraud Corner article on preventing checking account fraud,⁹ monthly bank reconciliations substantially increase the likelihood of discovering irregularities, including potential fraud, on a timely basis.

LAW Was Not Resolving Outstanding Checks Timely

Eleven reconciliations showed checks paid by LAW that were more than three months old and had not been deposited by the recipient. Ten of those reconciliations had checks outstanding for

⁹ For more information, please see the LSC OIG Fraud Corner article – Preventing Checking Account Fraud through Bank Reconciliations and Positive Pay found here:

https://www.oig.lsc.gov/images/pdfs/invest_results/Fraud_Corner_Positive_Pay_Final.pdf

more than six months. These included payments to a telecommunications company and a local university. The total of checks outstanding for more than three months was \$97,714.

The checks outstanding over three months are not in alignment with LAW's policies and LSC guidelines. LAW's Accounting Policies & Procedures state that checks outstanding for more than three months shall be voided from the system and the LSC Accounting Guide, Appendix VII.I(7), recommends investigating and resolving checks that have been outstanding for more than six months.

LAW management attributed the outstanding checks to illnesses, short staffing, and leave taken by staff. Additionally, LAW said the switch to remote work caused some confusion about the outstanding check policy.

When outstanding checks are not monitored and resolved, there is an increased risk of undetected errors or fraudulent activities, as well as noncompliance with state escheatment laws.

LAW Did Not Document the Purpose of 14 Cash Receipts

Cash receipts occur when LAW receives funds for private donations, client activity, or other purposes. LAW records this information in a cash receipt log. Out of our sample of 15 cash receipts, LAW did not record the purpose of funds in the cash receipt log for 14 cash receipts, totaling \$374,147.

The lack of purposes for cash receipts contrasts with LSC requirements. The LSC Accounting Guide, Section 3-5.4, states, "The accounting records should adequately identify all cash receipts as to source and purpose." LAW's policies state that the purpose of payment should be documented when cash or checks are received.

The grantee relied on supporting documentation to provide the purpose of cash receipts without explicitly writing the purpose in the cash receipt log.

If cash receipts are not clearly designated for a specific purpose, they could be incorrectly allocated or used for the wrong purpose.

We recommend that the Executive Director:

Recommendation 6: Implement enhanced processes to ensure an appropriate individual reviews bank reconciliations and documents their review with a signature and date.

Recommendation 7: Implement enhanced processes to reconcile bank accounts monthly, including documentation of the date of preparation and to investigate and correct any out-of-balance conditions.

Recommendation 8: Implement a process to investigate and resolve outstanding checks in a timely manner, in accordance with LAW's policies, LSC criteria, and state escheatment laws. Any checks currently outstanding more than three months should be resolved.

Recommendation 9: Establish a control to ensure the purpose of cash receipts is recorded in the cash receipts log.

Disbursements

To determine whether LAW had adequate controls over disbursements,¹⁰ we reviewed their policies over cash disbursements, interviewed management, and tested a sample of transactions for compliance with the grantee's policies, LSC criteria, and the Code of Federal Regulation requirements.

LAW's policies were comparable to LSC guidelines and requirements, and we found that the grantee documented adequate support and requisite approvals for all items in our sample. All transactions were properly recorded in LAW's general ledger, and we did not identify any issues with voided or missing checks. We found two expenses that were unallowable uses of LSC funds.

LAW Made Two Unallowable Transactions Using LSC Funds

Two disbursements included unallowable uses of LSC funds. One expense of \$550 was for a firm sponsorship table at the Milwaukee Bar Association annual meeting. The other was \$250 for participation dues in the Midwest Project Directors Association.

According to 45 C.F.R. §1630.7, LSC funds may not be used to pay membership fees or dues to any private or nonprofit organization. Additionally, 45 C.F.R. § 1630.5(a) states that costs under LSC grants are allowable only if the costs are reasonable and necessary in the performance of the grant.

For the \$550 expense, LAW management initially stated that they did not reallocate the expense to a non-LSC funding source because it would have taken too much time and not been cost efficient for an amount they considered immaterial. However, after we issued the draft report, LAW management provided supporting documentation that demonstrates the subsequent reallocation of the \$550 to non-LSC funds and reclassification of the expenditure from membership dues to outreach.

For the \$250 expense, LAW stated that the check was voided and provided contemporaneous emails showing their intention to shred the check.

¹⁰ We judgmentally selected 65 disbursements, totaling \$408,967, for testing. Our sample included large dollar amounts, potentially LSC-unallowable costs, memberships, dues, and other high-risk items. We also selected samples of voided checks and missing check numbers.

Based on the supporting documentation provided during and after fieldwork, we are not questioning either expense.

Unallowable uses of LSC funds could subject the grantee to questioned cost proceedings.

Recommendation 10: We recommend the Executive Director implement a process to ensure that only LSC-allowable expenses are allocated to LSC, in accordance with 45 C.F.R. § 1630.5 and 1630.7.

Fixed Assets

To evaluate whether the grantee had adequate controls over purchasing, recording, inventorying, and disposing of fixed assets, we reviewed their policies, conducted interviews about fixed assets, and performed testwork on a sample of assets, including electronic devices.

We found that the policies in LAW's accounting manual, and those described by management, align with the LSC Accounting Guide. In our testwork, we found that LAW adequately tracked assets and performed inventories.

We also reviewed the grantee's most recent "Pinging Report," which showed electronic devices that were connected to LAW's network. We found that two individuals no longer employed at LAW were listed as active users in the report.

LAW Did Not Remove Former Employees from Their Active Network User List

LAW provided the most recent "Pinging Report" from July 2021, and we noted two employees logged into the grantee's network over 100 days after they ended their employment at LAW. The system listed these employees as current users; however, one employee had ended employment at LAW 287 days prior while the other employee ended employment 125 days prior to the report run date. This contrasts with the LSC Accounting Guide, which states in Section 3-5.14, that management must take an active role in electronic data processing controls to ensure that systems meet user needs, are developed economically, are thoroughly documented and tested, and contain appropriate internal controls. The controls must provide assurances that computers and the data they contain are properly protected.

Management stated that the network did not distinguish between paid employees and volunteers and that one of the employees had retired and become a volunteer for LAW. Additionally, the IT department acknowledged that users are supposed to be limited to a more restrictive account however, due to an oversight, these users were not.

Without adequate security controls over the computers and data, the organization could experience financial losses due to theft or unauthorized access. An LSC OIG Fraud Corner article

on insider threats¹¹ notes that as a best practice, all remote access should be revoked immediately after an employee departs to lessen the risk of a former employee causing damage to the grantee's IT system by deleting, stealing, or changing sensitive information.

Recommendation 11: We recommend the Executive Director implement controls to remove inactive employees from the computer systems in a timely manner.

Client Trust Funds

We reviewed LAW's written policies over client trust funds¹², interviewed management, and evaluated a sample of accounts and transactions to determine if they had adequate internal controls over client trust funds.¹³

We noted no exceptions in our review of the grantee's written policies or interviews with management. We found exceptions in the reconciliations of client trust accounts, which are detailed in the General Ledger and Financial Controls section of this audit report. We also found that LAW did not maintain receipts when client funds were submitted to the grantee.

LAW Did Not Maintain Three Client Trust Receipts

LAW did not maintain receipts in three instances, totaling \$3,330, when client funds were received.

The lack of receipts is not in alignment with LAW's client trust policies and LSC guidance. According to LAW's Accounting Policies & Procedures, a pre-numbered triplicate receipt should be issued upon acceptance of client funds, with copies given to the client and retained by LAW. Additionally, the LSC Accounting Guide, Section 3-5.7 (e) states, "Prenumbered receipts shall be issued for all money received from clients."

LAW staff stated that they did not issue a receipt for one transaction because they received the check via a drop-off window. For the other two, LAW was unable to locate receipts.

Inadequate recordkeeping may allow receipts and deposits to go unrecorded or erroneously recorded in the appropriate ledgers, potentially resulting in inaccurate financial statements and management reports.

¹¹ For more information, please see the LSC OIG Fraud Corner article – Best Practices for Preventing and Detecting Insider Threats found here: https://www.oig.lsc.gov/images/pdfs/invest_results/Fraud_Corner_Insider_Threat_6-24-19.pdf

¹² Client trust accounts are used for funds received from or on behalf of a client. LSC requires a separate escrow bank account be opened and designated solely for client trust funds.

¹³ We judgmentally selected two months, December 2021, and August 2022, from which to review client trust reconciliations. LAW had five client trust accounts, so we reviewed 10 reconciliations. From these, we judgmentally selected three receipts and four disbursements for testing. Receipts totaled \$3,330, and disbursements totaled \$78,852.

Recommendation 12: We recommend that the Executive Director review LAW's policy regarding client trust receipts and determine if it is still practical given current program resources and enhance processes to consistently issue and retain receipts when receiving client funds.

Employee Benefits

LAW's personnel manual described standard benefits offered to employees such as paid time off, insurance, and retirement plans. Our review focused on non-standard benefits, including 5-year service leave; training and continuing education; and payment of bar dues. We found that LAW imposed reasonable restrictions and had adequate internal controls over 5-year service leave and bar dues. Based on interviews and our review of written policies, LAW appeared to have adequate policies for employee training and continuing education. However, we were unable to test these policies due to a lack of documentation.

LAW Did Not Provide Requested Documentation to Support Training and Continuing Education Payments

As part of our employee benefits testwork, we requested documented support for training and continuing education payments. While LAW provided support for other non-standard benefits including 5-year service leave and bar dues, they did not provide the requested support for training and continuing education payments made during our audit period. We requested this documentation near the beginning of our fieldwork and had not received it by the time our fieldwork was completed.

The lack of documentation conflicts with LSC guidelines. LSC's Accounting Guide, Section 2-5, states, A recipient's accounting records should be maintained on an automated system, which should provide an adequate audit trail for all transactions.

We were unable to perform testwork because LAW did not respond to requests for documentation.

Without adequate documentation to support the payment of training and continuing education fees, LAW cannot demonstrate that they made accurate and appropriate payments.

Recommendation 13: We recommend the Executive Director implement a process to maintain adequate documentation to support the payment of training and continuing education fees.

OIG Evaluation of Grantee Management Comments

On November 13, 2023, LAW provided responses to the OIG's Draft Report. LAW management agreed with two recommendations, partially agreed with ten recommendations, and disagreed with one recommendation. While they disagreed with Recommendation 10, after we issued the draft report LAW provided documentation to show that the unallowable expense was reclassified and reallocated to non-LSC funds. LAW management stated they partially agreed with Recommendations 1, 5, 6, 7, and 8 because they had proper controls in place, but failed to follow the controls due to several factors, including performance issues with the former accounting staff and unexpected and extended leave taken by key personnel. For these recommendations, management acknowledged the underlying deficiencies and proposed actions to address them.

LAW's responses are included in their entirety in Appendix III.

The OIG considers LAW's comments and responses to Recommendations 9 and 11 as fully responsive and the recommendations are closed.

The OIG considers LAW's comments and proposed actions for Recommendation 3, 4, 10 and 12 as responsive. While LAW partially agreed with Recommendations 3 and 4 and disagreed with Recommendation 10, their proposed actions were responsive. These four recommendations will remain open until we receive the following items:

- **Recommendation 3:** Signed credit card user agreement forms from all authorized LAW credit card users.
- **Recommendation 4:** Updated policies, including the processes, for cardholders to approve purchases prior to delegates incurring charges.
- **Recommendation 10:** A corrective action plan that ensures unallowable costs are not allocated to LSC in accordance with 45 C.F.R. § 1630.5 and 1630.7, as well as evidence that supports the implementation of the plan.
- **Recommendation 12:** Results of the Executive Director's review of LAW's client trust policies, including any board-approved revisions.

The OIG considers LAW's comments and proposed actions for Recommendations 1, 2, 5, 6, 7, 8, and 13 as partially responsive. These seven recommendations will remain open until we receive the following items:

- **Recommendation 1:** A corrective action plan that ensures adequately referenced transaction entries are made to the general ledger, and source documents are traceable to the general ledger as well as evidence that supports implementation of the plan. LAW should also provide the quality improvement plan referenced in their response.

- **Recommendation 2:** A corrective action plan that ensures the maintenance of adequate credit card supporting documentation, including receipts and documentation of the purpose of transactions as well as evidence that supports the implementation of the plan.
- **Recommendation 5:** Evidence of the Board of Directors' review of the Executive Director's credit card expenses for October and November 2023.
- **Recommendations 6 and 7:** Completed and approved bank reconciliations from October and November 2023, and the quality improvement plan referenced in their response.
- **Recommendation 8:** Operating account statements from December 2023, showing that outstanding checks have been resolved.
- **Recommendation 13:** Documentation of training and continuing education fees paid by LAW from July 2023, through December 2023.

Additionally, we are referring questioned costs, in violation of 1630.5(a), totaling \$8,534 to LSC management for review and action. This amount includes thirteen credit card transactions with inadequate support.

Appendix I: Scope & Methodology

To achieve the audit objective, we identified, reviewed, evaluated, and assessed internal controls for the following activities:

- Credit Cards
- General Ledger and Financial Controls
- Disbursements
- Fixed Assets
- Client Trust Funds
- Management Reporting and Budgeting
- Contracting
- Employee Benefits
- Derivative Income
- Cost Allocation
- Payroll
- CARES Act funds

We evaluated select financial and administrative areas and assessed the related controls in place during the period of January 1, 2021, through September 30, 2022, to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations.

To understand the internal control framework and LAW's processes over the areas listed above, we interviewed grantee management and staff, and we reviewed the grantee's policies and procedures. These included accounting and personnel manuals, and additional board-approved policies setting forth current grantee practices.

To review and evaluate internal controls, we designed and performed audit procedures to obtain sufficient and appropriate evidence to support our conclusions over the design, implementation, and operating effectiveness of controls significant to the audit objective. We also conducted testwork which included inquiries, observation, and the examination of source documents to determine whether the grantee's internal control system and policies and procedures complied with the guidelines in the LSC Accounting Guide.

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. We assessed the internal control components and underlying principles that we determined to be significant to the audit objective. However, because we limited our review to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Additionally, we considered the necessity of evaluating information systems controls. We determined that information system controls were significant to the audit objective. Therefore, we evaluated information system controls related to specific grantee operations, oversight, program expenditures, and fiscal accountability. Our internal control review included performing audit procedures related to information system controls to obtain sufficient, appropriate evidence to support and document our findings and conclusions on the implementation and effectiveness of LAW's internal controls. We determined that no additional audit procedures relating to information systems controls were needed.

Per government auditing standards, we assessed the reliability of LAW's computer-generated data. We reviewed selected system controls and supporting documentation and conducted interviews, logical tests, and testwork including tracing and vouching amounts to and from source documents. We found the data were reasonably complete, accurate, and consistent. Therefore, we determined the data were sufficiently reliable for the purposes of this report.

We also assessed significance and audit risk. We determined that internal controls in the select financial and operational areas mentioned above were significant to the audit objective. Audit risk is the possibility that audit findings, conclusions, recommendations, or assurance may be improper or incomplete because of factors such as insufficient or inappropriate evidence, the inadequacy of the audit process, or intentional omissions or misleading information due to misrepresentation or fraud. Based on our consideration of these factors, we determined the audit risk level to be low.

To select our samples for testing, we used a non-statistical methodology. We determined this methodology was appropriate based on the audit scope and objective, the audit timeline and the grantee's nature. Our results cannot be projected to the audit universe, and we do not intend to make inferences about the populations from which we derived our samples.

To assess the appropriateness of expenditures and the existence of adequate supporting documentation, we reviewed disbursements made by LAW for transactions other than credit cards and payroll. We judgmentally selected a sample of 65 disbursements for testwork, totaling \$408,967. The selected transactions included high dollar value transactions, potentially LSC-unallowable transactions, and atypical vendors, as well as routine disbursements for employee reimbursements and office supplies, among others. The sample represented approximately nine percent of the \$4,429,013 disbursed for transactions other than credit cards and payroll during the period January 1, 2021, through September 30, 2022. To assess the appropriateness of expenditures, we reviewed invoices and supporting documentation. We evaluated the appropriateness of those expenditures based on applicable laws and regulations, as well as LSC grant agreements and policy guidance. We also traced the expenditures to the general ledger to verify whether they were fully recorded.

In addition to the disbursements, we judgmentally selected six months of credit card payments and obtained the corresponding card statements. From the six statements, we judgmentally selected 131 transactions totaling \$86,285. We assessed the appropriateness of the expenditures and the existence of approvals and adequate supporting documentation.

To evaluate and assess internal controls over employee benefits, payroll, contracting, client trust funds, management reporting and budgeting, general ledger and financial controls, derivative income, and CARES Act funds, we interviewed program personnel. We also examined related policies and procedures as applicable and selected specific transactions to review for adequacy and compliance with LSC regulations and guidelines.

To evaluate the adequacy of the cost allocation process and to determine whether the allocation methodology was reasonable and compliant with LSC regulations and guidelines, we discussed the process with grantee management and reviewed the grantee's cost allocation policies and procedures as required by the LSC Accounting Guide. We reviewed selected transactions to determine if the amounts allocated conformed to the documented allocation process and if the transactions were properly allocated in the allocation spreadsheet and the general ledger.

We reviewed controls over property purchases, inventory, disposal, and recording by examining current grantee practices compared to LSC regulations and guidance in the LSC Accounting Guide.

We conducted fieldwork from November 7, 2022, to March 14, 2023. We performed the audit remotely due to health concerns related to the COVID-19 pandemic. Both the grantee and LSC management electronically submitted documentation for review, and we conducted interviews via remote video conferencing. Documents reviewed pertained to the period January 1, 2021, through September 30, 2022.

We conducted the 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 findings and conclusions based on the audit objective. We believe the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

Appendix II: Assessment of Internal Control Components and Principles

Figure 2: Internal Control Principles Significant to the Audit Objective¹⁴

Internal Control Component		Principle	
Name	Overview	Number	Description
Control Environment	The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.	2	The Oversight Body Should Oversee the Entity's Internal Control System
		3	Management Should Establish an Organizational Structure, Assign Responsibility, and Delegate Authority to Achieve the Entity's Objectives
Control Activities	Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.	10	Management Should Design Control Activities to Achieve Objectives and Respond to Risks
		11	Management Should Design the Entity's Information System and Related Control Activities to Achieve Objectives and Respond to Risks
		12	Management Should Implement Control Activities Through Policies

¹⁴ The numbers correspond with the principles outlined in the [Standards for Internal Control in the Federal Government](#) (GAO-14-704G). While we considered principles 1, 4-9, 16 and 17 during the audit, we determined that these principles were not significant to the audit objective.

Internal Control Component		Principle	
Name	Overview	Number	Description
Information and Communication	<p>Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives.</p> <p>Entity management needs access to relevant and reliable communication related to internal as well as external events.</p>	13	Management Should Use Quality Information to Achieve the Entity's Objectives
		14	Management Should Internally Communicate the Necessary Quality Information to Achieve the Entity's Objectives
		15	Management Should Externally Communicate the Necessary Quality Information to Achieve the Entity's Objectives

Appendix III: Grantee Management Comments

LEGAL ACTION OF WISCONSIN

Providing free legal services to low-income Wisconsin clients since 1968 • Proporcionando servicios legales gratuitos a clientes de bajos ingresos en Wisconsin desde 1968

November 13, 2023

Roxanne Caruso
Assistant Inspector General for Audit
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington DC 20007-3358

Dear Ms. Caruso:

Please see below for Legal Action of Wisconsin's responses to the OIG's draft audit report.

Also, we would like to commend our audit team. They were excellent to work with it. We appreciated their availability, thoroughness, professionalism, patience, and guidance.

Sincerely,



Deedee Peterson
Executive Director



Office of Inspector General

Legal Services Corporation

3333 K Street, NW, 3rd Floor

Washington, DC 20007-3558

202.295.1660 (p) 202.337.6616 (f)

www.oig.lsc.gov

Recommendation Tracking

Grantee Name:

RNO:

The Office of Inspector General makes recommendations for actions or changes that will correct problems, better safeguard the integrity of funds, and improve procedures or otherwise increase efficiency or effectiveness. We believe grantee management understands its own operations best and is in a position to utilize more effective methods to respond to our recommendations. We encourage these methods when responding to recommendations.

Instructions: Please complete this form with your comments and select whether you agree, partially agree, or disagree with the recommendations outlined in the draft report. Along with this form, submit a letter outlining your responses to our audit report.

Recommendations	Response	Comments
<p>Recommendation 1: Implement controls to ensure adequately referenced transaction entries are made to the general ledger, and source documents are traceable to the general ledger. Grant codes should be coded in the accounting system and included with supporting documentation.</p>	<p>Agree <input type="checkbox"/></p> <p>Partially Agree <input checked="" type="checkbox"/></p> <p>Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because the firm did have these controls in place during the audit period. However, the firm's accounting staff (those staff members who were in place during the audit period) did not apply our controls consistently and with sufficient attention to accuracy and detail. The failure to follow existing controls was caused by:</p> <ul style="list-style-type: none"> • some poor job performance by accounting department staff;

		<ul style="list-style-type: none"> • turnover in the accounting department during the period covered by the audit, leaving insufficient time to train department staff on the firm's controls, policies, and procedures; • unexpected and extended periods of leave (illness and parental leave), with the former CFO and the former Controller not seeking and unable to find temporary help to cover the work during these periods of leave; • insufficient oversight and review of the department's operations by the former CFO and Controller; and • insufficient performance management of the Controller by the former CFO and insufficient performance management of the Staff Accountants by the former Controller. <p>As of this writing, we have completely turned over the accounting department staff. Our new CFO is implementing a quality improvement plan.</p>
<p>Recommendation 2: All credit card charges are supported with the required documentation, in accordance with LAW's policies and procedures.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because: 1/ The firm did support credit card transactions with proper documentation during the audit period, however, our former Controller, without authorization from the former CFO or from the Executive Director, either failed or declined to provide the documentation for some of these transactions to OIG; and 2/ The specific action that OIG is recommending that we undertake here is unclear.</p>
<p>Recommendation 3: Enhances credit card policies to require all credit card users to read and sign a credit card user agreement form. The agreement may include repayment terms and conditions for personal use or misuse of the card. The signed agreements should be retained in a central file.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation. During the audit period, an LAW credit card holder (all have a signed credit card user agreement in place) properly made all transactions themselves or directed another employee to make the transaction out of administrative convenience. An example of a card holder directing the use of a credit card: The Executive Director (card holder) directs the administrative assistant to use her LAW credit card to pay a board member's conference registration</p>

		<p>fee and the administrative assistant then does so. As another example: The Executive Director (card holder) directs the administrative assistant to place an advertisement for the firm's recruitment for an attorney opening and the administrative assistant then does so. When a LAW credit card holder directs another employee to make a payment for a legitimate LAW expense using their card, the non-card holding employee does not become an authorized credit card holder or user. However, we do agree that it would be advantageous to enhance our credit card policies to require employees who are directed by an LAW credit card holder to read and sign an agreement.</p>
<p>Recommendation 4: Update LAW's accounting manual to include a policy for card users to obtain approval from the cardholder, documented by date, prior to incurring credit card charges and paying card statement balances.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because, as noted above, a non-card holding employee does not become an authorized credit card holder or user when a card-holding employee directs them to make a transaction using an LAW credit card. In addition, the card holder did properly direct the use of their card, before the transaction occurred, during the audit period. However, we do agree with the recommendation to update our accounting manual to include these recommended procedures, i.e., the card holder will document their direction to the non-card holder and do so prior to incurring the credit card charge.</p>
<p>Recommendation 5: Work with the Board of Directors to implement controls for the Board to document a review of the Executive Director's expense reports, credit card statements, and travel reimbursements. Such controls could include revising the Board's by-laws to include such reviews or creating a standing agenda item for the Board's quarterly meetings.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because the firm's accounting manual does have adequate controls in place for Board review (via review by the Board President) of the Executive Director's expense reports, credit card statements, and travel reimbursements. During the audit period, the accounting department failed to provide the reports to the Board President and this failure to do so is a job performance matter, rather than a lack of controls, and will be addressed via improved performance management.</p>

<p>Recommendation 6: Implement enhanced processes to ensure an appropriate individual reviews bank reconciliations and documents their review with a signature and date.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because the the firm did maintain controls regarding review of bank reconciliations during this audit period. Our accounting department staff (during the period covered by the audit) did not follow these processes consistently and with sufficient attention to accuracy and detail. (Reasons described above.) However, we agree that enhanced processes may help ensure that accounting department staff are performing their work in a way that meets our standards. As of this writing, we have completely turned over the accounting department staff. Our new CFO is implementing a quality improvement plan.</p>
<p>Recommendation 7: Implement enhanced processes to reconcile bank accounts monthly, including documentation of the date of preparation and to investigate and correct any out-of-balance conditions.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because the firm did have controls regarding monthly bank reconciliations in place during the audit period. Our accounting department staff (during the period covered by the audit) did not follow them consistently and with sufficient attention to accuracy and detail. (Reasons described above.) However, we agree that enhanced processes may help ensure that accounting department staff are performing their work in a way that meets our standards. As of this writing, we have completely turned over the accounting department staff. Our new CFO is implementing a quality improvement plan.</p>
<p>Recommendation 8: Implement a process to investigate and resolve outstanding checks in a timely manner, in accordance with LAW's policies, LSC criteria, and state escheatment laws. Any checks currently outstanding more than three months should be resolved.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because, like our responses above, the firm did have a process in place during the audit period but our accounting staff that was in place during the audit period was not applying the process. This was a performance issue by our accounting staff rather than a lack of process.</p>

<p>Recommendation 9: Establish a control to ensure the purpose of cash receipts is recorded in the cash receipts log.</p>	<p>Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We have implemented this recommendation.</p>
<p>Recommendation 10: We recommend the Executive Director implement a process to ensure that only LSC-allowable expenses are allocated to LSC, in accordance with 45 C.F.R. § 1630.7.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input checked="" type="checkbox"/></p>	<p>We disagree with this recommendation because the firm does have processes to ensure the firm is properly allocating LSC-allowable expenses in accordance with 45 C.F.R. § 1630.7, Our former Controller, without authorization from the former CFO or from the Executive Director, declined to provide documentation of our allocations to OIG. The former Controller’s failure to provide documentation of our allocations is a performance concern rather than a gap in the firm’s processes. In addition, we dispute the statement that the \$550 payment to the Milwaukee Bar Association was an unallowable LSC expense. This \$550 expense was a sponsorship of a luncheon event by the Bar Association, and it did not purchase membership with the bar association and was therefore not a payment for a membership.</p>
<p>Recommendation 11: We recommend the Executive Director implement controls to remove inactive employees from the computer systems in a timely manner.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because the former employees that OIG cites were indeed active, but they were active as volunteers rather than paid employees at that point in time. The employees volunteered for Legal Action after they left paid employment and the firm failed to change their categorization from “employee” to “volunteer” in the client database. Nevertheless, we have changed our procedures to ensure that employees are properly categorized as volunteers in our client database when they leave paid employment and become a volunteer instead.</p>
<p>Recommendation 12: We recommend that the Executive Director review LAW’s policy regarding client trust receipts and determine if it is still</p>	<p>Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>The Executive Director will direct the new CFO to conduct this review.</p>

<p>practical given current program resources and enhance processes to consistently issue and retain receipts when receiving client funds.</p>		
<p>Recommendation 13: We recommend the Executive Director implement a process to maintain adequate documentation to support the payment of training and continuing education fees.</p>	<p>Agree <input type="checkbox"/> Partially Agree <input checked="" type="checkbox"/> Disagree <input type="checkbox"/></p>	<p>We partially agree with this recommendation because we acknowledge that, while the former accounting team failed to provide this documentation (while providing other benefits documentation), the firm does have adequate processes to maintain documentation to support payments for training and continuing education. Our former Controller, without authorization from the former CFO or from the Executive Director, declined to provide it and that is a performance problem rather than a failure to have an adequate process.</p>

Name and Title

Deedee Peterson, Executive Director

Signature

