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Legal Services Corporation

Inspector General
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March 14, 2016

Mr. Thomas W. Weeks
Executive Director
Ohio State Legal Services
555 Buttles Avenue
Columbus, OH 43215-1137

Dear Mr. Weeks:

Enclosed is the Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Ohio State Legal Services Association. Your comments are included in the final report as Appendix II.

The OIG considers the proposed actions to address Recommendations 1, 2, 4, 5, 6, 7, 8, 9, 12 and 13 as responsive. The actions planned by grantee management to address the issues and revise and update its Accounting Manual should correct the issues identified in the report. However, all ten recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation provided.

The OIG accepts your stated actions for Recommendation 1 relating to attorneys' fees for 2015. The total attorneys' fees that are in question are $47,553. This amount will be referred to LSC management.

The grantee's comments are not responsive to Recommendations 3 and 11 and are partially responsive to Recommendation 10. The OIG is referring these recommendations to LSC management for resolution.

Please provide us with your response to close out the remaining ten open recommendations along with the revised Accounting Manual within six months of the date of this final report.

We thank you and your staff for your cooperation and look forward to receiving your submission by August of 2016.

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

cc: <u>Legal Services Corporation</u>
Jim Sandman, President

Lynn Jennings, Vice President
For Grants Management

<u>Ohio State Legal Services Association</u>
Thomas Bonasera
Board Chairperson

<u>Sent by E-mail to Board of Directors</u>
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LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

FINAL REPORT ON SELECTED INTERNAL CONTROLS

OHIO STATE LEGAL SERVICES ASSOCIATION

RNO 436070

Report No. AU 16-04

March 2016

www.oig.lsc.gov

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INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at the Ohio State Legal Services Association (OSLSA or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's program administration office in Columbus, OH and at LSC headquarters in Washington, DC.

In accordance with the Legal Services Corporation Accounting Guide for LSC Recipients (2010 Edition) (Accounting Guide), Chapter 3, an LSC grantee "…is required to establish and maintain adequate accounting records and internal control procedures." The Accounting Guide defines internal control as follows:

> [T]he process put in place, managed and maintained by the recipients' board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:
>
> 1. safeguarding of assets against unauthorized use or disposition;
> 2. reliability of financial information and reporting; and
> 3. compliance with regulations and laws that have a direct and material effect on the program.

Chapter 3 of the Accounting Guide further provides that each grantee "must rely … upon its own system of internal accounting controls and procedures to address these concerns" such as preventing defalcations and meeting the complete financial information needs of its management.

BACKGROUND

OSLSA is a private, nonprofit corporation formed in 1966 to provide free legal representation to low-income communities throughout Appalachian Ohio. OSLSA is governed by a Board of Trustees appointed by the state bar association and client-eligible groups.

OSLSA has a direct service component and a State Support Center, the Ohio Poverty Law Center, LLC (OPLC). OSLSA's administrative offices and the OPLC are located in Columbus. The direct service offices are located throughout central and southeastern Ohio, covering 36 counties.

OSLSA merged with Legal Aid Society of Columbus (LASC) in 2014. OSLSA and LASC use the same Accounting Manual but operate with separate staff members, offices, staff manuals, bank accounts, credit cards, and vendors. Although the same accounting system is used for OSLSA, LASC and OPLC, separate modules are maintained within the accounting system for each entity. OSLSA oversees fiscal responsibilities of all the entities. The OIG's review focused on internal controls in place at OSLSA.

OSLSA receives state grants from the Ohio Legal Assistance Foundation and federal funding from the Legal Services Corporation (LSC). According to the grantee's audited financial statements for the year ended December 31, 2014, the total funding received by the grantee from LSC and other entities was $8,835,683; approximately 46 percent or $4,088,553 was provided by LSC, and 54 percent or $4,747,130 from other entities.

OBJECTIVE

The overall objective was to assess the adequacy of selected internal controls in place at the grantee as the controls related to specific grantee operations and oversight, including program expenditures and fiscal accountability. Specifically, the audit evaluated selected financial and administrative areas and tested the related controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations.

AUDIT FINDINGS

To accomplish the audit objective, the OIG reviewed and tested internal controls related to cash disbursements, credit cards, cost allocation, contracting, fixed assets, general ledger controls, derivative income, and employee benefits, as well as controls related to internal reporting and budgeting. While many of the controls were adequately designed and properly implemented as they relate to the specific grantee operations and oversight, some controls need to be strengthened and formalized in writing. The OIG reports the following as areas that need improvement.

DERIVATIVE INCOME

OSLSA receives derivative income in the form of attorneys' fees, rental and interest income. The grantee's interest income is based on funds originally received from the Ohio Legal Assistance Foundation (OLAF); therefore, it is allocated to unrestricted funds. OSLA's rental income is from a building that was purchased with non LSC funds; and as a result, it is also allocated to unrestricted funds. Written policies for derivative income were not included in the grantee's Accounting Manual. We also found that the methodology for allocating attorneys' fees was not in accordance with 45 CFR §1609.4.

Lack of Written Policies

The grantee has no written policies relating to the treatment of attorneys' fees, rental and interest income.

45 CFR § 1609.6 stipulates that each grantee shall adopt written policies and procedures to guide staff in complying with this part and maintain records to document the grantee's compliance. LSC's Accounting Guide considers derivative income as any additional income derived from an LSC grant, such as interest income, rent or the like, or that portion of any reimbursement or recovery of direct payments to attorneys, proceeds from the sale of assets, or other compensation or income attributable to any Corporation grant. LSC derivative income must be reported in the same class of net assets that includes the LSC grant.

The Finance Director stated they had not considered documenting policies for treatment of derivative income; however, the grantee considered including it when the OIG brought this to their attention.

The grantee's lack of written policies or procedures may result in inaccurate allocation of the total amount of derivative income credited back to the appropriate funding source. In addition, there could be a lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover.

Attorneys' Fees

Based on our review and test work of attorneys' fees, the method for allocating attorneys' fees revenue was not in accordance with 45 CFR §1609.4.

Attorneys' fees, totaling $11,289, associated with three cases supported by LSC funds were allocated to unrestricted funds. In addition, the grantee's records associated with five attorneys' fees, totaling $36,264, did not indicate to which funding code they should be applied. Therefore, the funding source supporting the representation could not be determined.

45 CFR Part 1609.4 stipulates that attorneys' fees received by a grantee for representation supported in whole or in part with funds provided by LSC, shall be allocated to the fund in which the grantee's LSC grant is recorded in the same proportion that the amount of LSC funds expended bears to the total amount expended by the grantee to support the representation.

According to the Director of Finance, attorneys' fees are allocated to unrestricted funds because the fees obtained are not from any particular funding source. For attorneys' fees without funding codes, the grantee stated the cases were supported by OLAF funds. However, there was no documentation provided by the grantee to verify the cases were supported with OLAF funds.

The OIG is questioning eight attorneys' fees totaling $47,553: Three attorneys' fees totaling $11,289 supported by LSC funds but allocated to unrestricted funds and five attorneys' fees totaling $36,264 which had no supporting funding source indicated in the grantee's records and were allocated to unrestricted funds. The OIG will refer the questioned attorneys' fees to LSC management for review and action.

Recommendation 1: The Executive Director should develop a written derivative income policy that covers all types of derivative income received by the grantee and a written attorneys' fees policy that mirror the requirements contained in 45 CFR Part 1609.

COST ALLOCATION

The OIG reviewed the grantee's Accounting Manual for policies related to cost allocation and found that it does not contain policies and procedures over cost allocation. However, the grantee was able to provide a written description of its cost allocation process as part of the response to OIG's document request. OIG review and testing of the cost allocation process found that the methodology appeared reasonable and complied with the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. The practice also mirrors the grantee's written cost allocation description.

As part of an internal control structure, each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria* in the LSC Accounting Guide, which requires that financial controls be established to safeguard program resources. According to the grantee, its Accounting Manual had not been updated to include the cost allocation policies and procedures.

A documented policy ensures that procedures are replicable, even in the absence of experienced accounting staff familiar with OSLSA's practices. Without detailed written procedures, there could be lack of transparency and consistency in the application of the methodology, especially in cases of staff turnover.

Recommendation 2: The Executive Director should ensure that the cost allocation process, as practiced by the grantee, is fully documented in the grantee's Accounting Manual.

CASH DISBURSEMENTS

Our review of the grantee's written policies and practices over disbursement transactions found that the grantee's policies are mostly comparable to LSC's *Fundamental Criteria*. The grantee's disbursements tested were approved and allowable, however some lacked sufficient documentation. In addition, there are a few areas in which grantee policies and practices can be improved.

Master Vendor List

The grantee's Accounting Manual does not have written procedures for the maintenance of a master vendor list.

The LSC Accounting Guide stipulates that grantees must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria*. In addition, the LSC Accounting Guide also stipulates that accounting duties should be segregated to ensure that no individual can initiate, execute, and record a transaction without a second independent individual involved in the process.

According to the Finance Director, she was not aware of the need to establish a policy over the maintenance of the master vendor list until the OIG brought it to her attention. As a result, there was no policy over the maintenance of the list, and therefore, proper segregation of duties had not been established to maintain it.

Both the Finance Director and the Legal Secretary/Accounting Assistant have the capability to authorize new vendors, address changes and other updates to vendor documents. A lack of segregation of duties over the master vendor list may result in duplicate or erroneous payments.

Purchases

Purchase procedures were not entirely in accordance with the grantee's written policies and procedures. One purchase had an insufficient number of bids obtained and the other had no documentation of bids as summarized in the table below:

Description	Cost of Purchase/Services	Amount Charged to LSC	Missing Documentation
Building Maintenance Repair	$1,650.00	$0.00	Insufficient number of bids obtained.
Equipment Maintenance	$3,350.00	$855.40	No documentation of bids.

The grantee's Accounting Manual stipulates purchases between $1,000 and $9,999 require a minimum of three bids and documentation shall be kept in a file by the Accounting Office. Also, purchases of $10,000 or greater require a minimum of three bids or a Request for Proposal including LSC's approval if LSC funds are being used. If only one bid is obtained, the Accounting Manual stipulates documentation for the lack of competition shall also be kept in a file by the Accounting Office.

Lack of sufficient documentation was the result of management oversight. Proper documentation helps ensure that the approved purchases or contracts follow all established procedures.

Recommendations: The Executive Director should:

Recommendation 3: establish a policy over maintenance of the master vendor list that would restrict the ability to create and change the list to selected individuals that are not involved in the payment process.

Recommendation 4: ensure that purchases requiring multiple bids have proper documentation maintained in the vendor file, including any deviation from established procedures.

CREDIT CARDS

The grantee has three credit cards: one each issued to the Executive Director, Finance Director and OSLSA. The Executive Director's and Finance Director's credit card information is shared with other employees. For instance, the Executive Director's credit card is used by the Bankruptcy Attorney at the Newark Office and the Finance Director's credit card is used by all managers and support staff at the Administrative and Columbus offices. Our review and test work noted transactions were allowable and supported.

However, some areas were noted where the grantee's policies and practices can be improved.

No Written Policy

Our review noted the grantee has practices in place over the use of credit cards; however, there is no formal written policy. The LSC Accounting Guide stipulates each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the *Fundamental Criteria*. According to the Finance Director, prior to the OIG's visit they did not feel the need to establish a policy over credit cards. An established policy will protect the grantee and allow at least some possibility for recovery of improper charges made on credit cards.

Purchases Made Without Prior Approval

Our review also noted the grantee's practices over credit cards were not entirely adequate. There were five credit card transactions where purchases were made prior to approval.

According to the grantee's described practice, an authorized employee submits a credit card requisition form for approval prior to any credit card purchase. In addition, the LSC Accounting Guide stipulates financial controls be established to safeguard program resources.

According to the Finance Director, there may be instances in which the final amount of a transaction could not be pre-determined, such as the purchase of cleaning supplies at the grocery store.

Without adequate controls, transactions may be initiated that violate management intentions, or grant restrictions. Purchases made without prior approval could place the grantee in a financial and credit risk possibly resulting in higher than necessary costs paid for products and/or services.

Board Review

There is no documented Board of Trustee oversight of the Executive Director's credit card statements. The LSC Accounting Guide stipulates approvals be required at an appropriate level before a commitment of resources is made. The Finance Director explained that all of the Executive Director's activities are discussed during the board meetings.

The lack of an appropriate level of oversight could result in purchases with unacceptable prices, unauthorized disbursements and misappropriation of LSC funds.

Recommendations: The Executive Director should:

Recommendation 5: put the grantee's policies and procedures over credit card usage in writing and ensure that these policies clearly define acceptable uses of the credit cards.

Recommendation 6: strengthen controls to ensure there are written approvals over credit card purchases, including instances where the purchase amounts cannot be pre-determined.

Recommendation 7: implement a policy requiring board member review and documented approval of the Executive Director's purchases and reimbursable expenses.

CONTRACTING

The LSC OIG reviewed seven contracts. All contracts tested were allowable, approved and supported with invoices. However, as summarized in the table below, the following was noted:

- One contract had no evidence of bids, nor a process used to obtain the contract.
- Two contracts did not have the related documentation maintained in a central file.

Description	Amount of Contract	No Documentation of Process Used for Each Contract Action.	No Documentation of Bid.	Documentation Not Maintained in Central File.
Finance Audit Service	$44,450.00	☑	☑	
Consultant Contract	$13,000.00			☑
Consultant Contract	$19,890.00			☑

According to the grantee, there was no evidence of bidding due to the fact that the contract was obtained some time before 2009. In addition, the grantee stated it has not re-evaluated the IPA contract nor has the Board required them to re-compete for this service.

Proper documentation helps ensure that the approved contract follows all established procedures.

Recommendations: The Executive Director should:

Recommendation 8: ensure the process used for each contract action is fully documented and the documentation is maintained in a central file. Also, any deviation from the approved contracting process should be fully documented and maintained in the contract file.

Recommendation 9: periodically evaluate the service agreements/contracts to ensure the grantee is receiving the best value and services by re-competing contracts or conducting market research to determine if the cost the grantee is paying is competitive and that independence is maintained through best practices.

FIXED ASSETS

Our review determined that the grantee needs to enhance its written policies and improve its practices over property control by following its written policies and procedures.

Written Policy

The grantee's written policies over fixed assets are mostly comparable to LSC's *Fundamental Criteria*. However, our review found some areas where the grantee needs to enhance its written controls.

The grantee's policy does not include all the required key elements according to the LSC Accounting Guide. Specifically, the grantee's Accounting Manual does not require a check number, original cost, fair market value, method of valuation, salvage value, funding source and identification number to be included in the property record.

In addition, the grantee's property records did not contain the following required elements:

- source of funds used to purchase the assets; and
- date of disposal.

The LSC Accounting Guide stipulates that the property record include the source of funds used to acquire the property and ultimate disposition data, including date and method of disposal, sales price if sold, with the method used to determine the current fair market value.

According to the Director of Finance, the MIP accounting system is not set up to include source of funds and disposal records. However, the Director of Finance, subsequent to the OIG's on-site visit, represented that the grantee was working to address the issue.

Failure to maintain adequate property records may result in the inability to fully account for fixed asset purchases and to support depreciation amounts and property asset balances.

Physical Inventory

The grantee did not conduct physical inventory of its fixed assets.

The grantee's written policies and LSC Accounting Guide Chapter 2-2.4 requires LSC recipients to conduct a physical inventory every two years and the results reconciled with the property records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference.

The Director of Finance explained that the date of the last physical inventory could not be determined because there are very few fixed assets items. Also, none of their fixed assets were purchased with LSC funds. However, the OIG could not determine which funds were used to purchase the fixed assets because the property record does not include funding codes.

Without the performance of a physical inventory, the accounting records may not reconcile with property records and a loss of fixed assets may not be detected. In addition, physical inventory count is an LSC requirement, and also a good internal control for any property purchased with LSC funds or not.

Laptops

The grantee did not maintain a list of all its laptops and they are not formally tracked. The LSC Accounting Guide stipulates that the grantee should be mindful of items that may contain sensitive information (i.e., a computer containing client confidential information) with values less than $5,000, as well as the need to inventory these items and dispose of them properly.

According to the Technology Specialist there are three laptops at the Administrative Office and one at each field office.

Without an adequate and complete tracking system for all laptops, there is no assurance the grantee is properly safeguarding the equipment and the sensitive information contained therein. In addition, if electronic items are lost or stolen, there is no way to identify the loss and what data could potentially be lost or compromised.

Recommendations: The Executive Director should:

Recommendation 10: update OSLSA's Accounting Manual to list the elements required in the property record in accordance with the LSC *Fundamental Criteria*; specifically the source of funds used to acquire the property and the ultimate disposition data, including date and method of disposal, sales price if sold, along with the method used to determine the current fair market value;

Recommendation 11: improve the physical inventory process to ensure that a physical inventory count is conducted every two years and accounted for as required by the grantee's written policies and the LSC Accounting Guide;

Recommendation 12: develop and implement policies and procedures to track IT equipment, such as laptops, which may contain sensitive information.

GENERAL LEDGER AND FINANCIAL CONTROLS

The grantee's written policies and procedures over general ledger and financial controls are in accordance with the *Fundamental Criteria*. However, our test work found eight checks outstanding for more than one year.

According to the Accounting Manual, outstanding checks between two and eleven months old require a notice be sent to the vendor verifying receipt of the check and a reminder that the check needs to be cashed. Checks older than one year will be voided. The Finance Director explained it was an oversight and would work to resolve the outstanding checks.

Outstanding checks present a lack of adequate control over financial transactions and increase the possibility that less frequent transactions will be undetected or accountability of funds may be lost.

Recommendation 13: The Executive Director should ensure that policies and procedures applicable to outstanding checks are adhered to as outlined in the grantee's Accounting Manual.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management agreed with ten recommendations contained in the report, and partially responded to one recommendation. The comments to two recommendations were not responsive.

The grantee stated the attorneys' fees for 2015 were reallocated to the funding source to which the expenses incurred in obtaining the attorneys' fees were allocated; and that they will work with the OIG for a solution to the attorneys' fees that are in question from 2014. OSLSA also stated the recommended practice for bidding most of their contracts is being followed and will also consider bidding the auditing contract in 2016.

Grantee management's formal comments can be found in Appendix II.

OIG EVALUATION OF GRANTEE MANGEMENT COMMENTS

The OIG considers the proposed actions to address Recommendations 1, 2, 4, 5, 6, 7, 8, 9, 12 and 13 as responsive. The actions planned by grantee management to address the issues and revise and update its Accounting Manual should correct the issues identified in the report. However, all ten recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation provided.

The OIG accepts the grantee's stated actions for Recommendation 1 relating to attorneys' fees for 2015. The total attorneys' fees that are in question are $47,553. This amount will be referred to LSC management for dispositive actions.

Grantee comments are not responsive to Recommendations 3 and 11 and partially agreed with Recommendation 10.

For Recommendation 3, the grantee stated that with its current staffing it was not realistic to exclude everyone involved in the payment process from having the ability to add vendors to the master vendor list. The LSC Accounting Guide stipulates that accounting duties should be segregated to ensure that no individual can initiate, execute, and record a transaction without a second independent individual involved in the process. In this case, if the same staff is responsible for vendor maintenance and adding invoices, there is a potential risk of creating a fictitious vendor and entering a vendor invoice for payment. While the grantee may have practices in place to mitigate the risk of erroneous or improper payments, it is important for management to document these processes in their Accounting Manual and establish controls, where practical, to reduce the identified risks.

For Recommendation 10, the grantee stated their accounting software has been reconfigured to include the source of funds. However, the grantee did not address any updates to the Accounting Manual.

For Recommendation 11, LSC guidelines are very clear on the inventory requirements. A physical inventory is required to be performed every two years and accounted for as required by the LSC Accounting Guide. The grantee's response appears to initiate an inventory process; however it does not appear to establish a rigorous process as contemplated by the LSC guidance that requires a two year inventory count and associated record keeping requirements.

The OIG will refer Recommendations 3, 10 and 11 to LSC management for resolution.

SCOPE AND METHODOLOGY

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

- Cash Disbursements,
- Credit Cards,
- Contracting,
- Cost Allocation,
- Derivative Income,
- General Ledger and Financial Controls,
- Internal Management Reporting and Budgeting,
- Property and Equipment, and
- Employee Benefits.

To obtain an understanding of the internal controls over the areas reviewed, grantee policies and procedures were reviewed including manuals, guidelines, memoranda and directives, setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework and management and staff were interviewed as to their knowledge and understanding of the processes in place. To review and evaluate internal controls, the grantee's internal control system and processes were compared to the guidelines in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide. This review was limited in scope and not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations.

We assessed the reliability of computer generated data the grantee provided by reviewing available supporting documentation for the entries selected for review, conducting interviews and making physical observations to determine data consistency and reasonableness. We determined the data were sufficiently reliable for the purposes of this report.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. The sample consisted of 84 disbursements totaling $278,331. The sample represented approximately three percent of the $9,837,092 disbursed for expenses other than payroll during the period January 1, 2014 to July 31, 2015.

To assess the appropriateness of expenditures, we reviewed invoices and vendor lists then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable OSLSA regulations and LSC policy guidance.

To evaluate and test internal controls over the employee benefits, contracting, property and equipment, internal management reporting and budgeting; we interviewed appropriate program personnel, examined related policies and procedures and selected specific transactions to review for adequacy.

To evaluate the adequacy of the cost allocation process, we discussed the cost allocation process for the scope period with grantee management and requested the grantee's written cost allocation policies and procedures for review as required by the LSC Accounting Guide. We selected some transactions that did not appear directly attributable to a single funding source in order to determine how the transactions were allocated. The OIG examined the allocation distribution to determine whether it compared with the grantee's written description and whether the methodology was reasonable.

Controls over derivative income were reviewed by examining current grantee practices and reviewing the written policies contained in the grantee's Accounting Manual.

The on-site fieldwork was conducted from September 14, 2015 through September 25, 2015. Our work was conducted at the grantee's program administration office in Columbus, OH and at LSC headquarters in Washington, DC. We reviewed documents pertaining primarily to the period January 1, 2014 through July 31, 2015.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

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February 24, 2016

Elizabeth Wickett
Office of Inspector General
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558

RE: 436070 Ohio State Legal Services Association
September 2015 OIG Audit Visit – Report Responses

Dear Ms. Wickett:

The following paragraphs detail your recommendations in, and our responses to, the draft report you sent to us on February 3, 2016, regarding the OIG audit visit in September 2015.

Recommendation 1: The Executive Director should develop a written derivative income policy that covers all types of derivative income received by the grantee and should develop a written attorneys' fee policy that mirror the requirements contained in 45 CFR Part 1609.

We agree with this recommendation and will develop a written derivative income policy and a written attorney fee policy. The attorney fees for 2015 were reallocated to the funding source to which the expenses incurred in obtaining the attorney fees were allocated. We will work with you for a solution to the other attorney fees that are in question from 2014.

Recommendation 2: The Executive Director should ensure that the cost allocation process, as practiced by the grantee, is fully documented in the grantee's accounting manual.

We agree with this recommendation and will include the cost allocation process, as practiced, in the Accounting Manual.

Recommendation 3: Establish a policy covering maintenance of the master vendor list that would restrict the ability to create and change the list to selected individuals that are not involved in the payment process.

We disagree with this recommendation. With the current staffing it is not realistic to exclude everyone involved in the payment process from having the ability to add vendors to the master vendor list. Because of limited staffing levels, everyone in the accounting department is involved in the payment process. We have other adequate procedures in place to ensure that duplicate or erroneous payments are not made to vendors. The accounting software requires that an invoice number must be entered with every invoice and it does not allow duplicate invoice numbers. Also, the check signers receive the voucher packet with the checks for signing and review the packets, so they raise a concern if there is an unfamiliar vendor. Finally, the Executive Director is very familiar with our regular vendors and reviews the bank statement every month which contains copies of the cancelled checks. If there is a vendor that is not familiar to him, he requests documentation of the payment. We consider these procedures adequate protection against fraudulent invoices and our auditors agree.

Recommendation 4: Ensure that purchases requiring multiple bids have proper documentation maintained in the vendor file, including any deviation from established procedures.

We are careful to obtain multiple bids when required, but we agree with the recommendation that the bids be placed in the vendor file. This file will be in electronic format on the finance drive of our computer system.

Recommendation 5: Put in writing the grantee's policies and procedures over credit card usage and ensure that these policies clearly define acceptable uses of the credit cards.

A written policy has been developed and will be included in the Accounting Manual.

Recommendation 6: Strengthen controls to ensure there are written approvals over credit card purchases, including instances where the purchase amounts cannot be predetermined.

A written policy implementing this recommendation has been adopted.

Recommendation 7: Implement a policy requiring board member review and documented approval of the Executive Director's purchases and reimbursable expenses.

We will have the Board President review the Executive Director's purchases and reimbursable expenses at the quarterly Board meetings.

Recommendation 8: Ensure the process used for each contract action is fully documented and the documentation is maintained in a central file. Also, any deviation from the approved contracting process should be fully documented and maintained in the contract file.

We will establish a file for all contracts and maintain the documentation in the file or documentation of a deviation from the process. These files will be in electronic format and stored on the finance drive of our computer system.

Recommendation 9: Periodically evaluate the service agreements/contracts to ensure the grantee is receiving the best value and services by re-competing contracts or conducting market research to determine if the cost the grantee is paying is competitive and that independence is maintained through best practices.

This practice is being followed in most of our contracts. The auditing contract has not been re-bid, but we will consider bidding it for the 2016 audit. We do not believe that rebidding is a good use of time for small contracts like the janitorial contracts in the

SEOLS offices unless there is reason to believe that a better price might be obtained or the service being received is unsatisfactory.

Recommendation 10: Update OSLSA's Accounting Manual to list the elements required in the property record in accordance with the LSC Fundamental Criteria. This should include specifically, the source of funds used to acquire the property and the ultimate disposition data, including date and method of disposal, sales price if sold, along with the method to determine the current fair market value.

The accounting software has been reconfigured to require the source of funds in property acquisitions. The depreciation software does track the date, sales price (if sold), and the method of disposition. We will document the method to determine current fair market value if sold.

Recommendation 11: Improve the physical inventory process to ensure that a physical inventory count is conducted every two years and accounted for as required by the grantee's written policies and the LSC Accounting Guide.

There are very few items on the depreciation schedule. We do not read the recommendation as expanding the property subject to depreciation and we do not plan to expand that inclusion. We will send a list of the items on the depreciation schedule to the offices and have the secretary verify that the items are still in use and physically located in the building.

Recommendation 12: Develop and implement policies and procedures to track IT equipment, such as laptops, which may contain sensitive information.

We will develop a policy for laptops and have each office be responsible for the policy. The laptops generally do not contain any sensitive data.

Recommendation 13: The Executive Director should ensure that policies and procedures applicable to outstanding checks are adhered to as outlined in the grantee's Accounting Manual.

We agree with this recommendation and the recommended action has been taken. The outstanding checks are being monitored.

Sincerely,

Thomas W. Weeks
Executive Director

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cc: Anthony Ramirez