Legal Services Corporation
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VIA ELECTRONIC AND US MAIL

February 24, 2012

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RE: Management Determination of Questioned Costs

Dear Ms. Harris and Mr. Hausen:

The purpose of this letter is to advise Legal Aid of North Carolina, Inc. ("LANC") of the determination by the Legal Services Corporation ("LSC") regarding the Notice of Questioned Costs ("Notice") dated January 12, 2012. (Attachment A). Based on our review of all pertinent information, including all of the information provided by LANC in response to the Notice, LSC has determined that the expenditure of LSC funds by LANC totaling $2,985.93 is disallowed. Pursuant to 45 CFR § 1630.7(d), LSC's decision to disallow these costs and the rationale for the decision are provided below.

Pursuant to 45 CFR Part 1630, LSC issued the Notice to LANC that questioned expenditures totaling $7,506.55. Adopting the findings of LSC's Office of the Inspector General ("OIG"), the Notice advised LANC of LSC's intent to disallow the costs as inconsistent with the LSC Act, unsupported by adequate documentation, or unreasonable or unnecessary.

By letter dated January 25, 2012, LANC responded to the Notice stating that the total amount to be disallowed should appropriately be $405.52. (Attachment B). The response disclosed that most of the OIG's recommended changes to policies and procedures that will strengthen their financial controls to prevent these questioned costs from arising again have been implemented. LANC's response requested that LSC review and consider their explanation and either determine that the questioned costs are allowable or that recovery is unnecessary. Thereafter, LANC's response addressed each of the questioned expenditures individually.

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LANC's response to the Notice stated that, during the 2010 audit, LANC re-classified $3,951.59 of the questioned expenses from its LSC fund to their general fund; thus, LANC argued, the total questioned costs should have been $3,554.96. LANC noted the questionable costs include: $2,470.41 for flowers, $110.00 for donations, $227.00 for holiday party, $178.52 for finance charges, and $569.03 for meal expenses not adequately documented. LANC further stated that the $227.00 charge for a share of a holiday party was charged in error to LSC funds in 2009, so they were unable to re-classify that amount, and the $2,470.41 and $110.00 expenditures were made in a good faith belief that they were legitimate business expenses made in support of the program and, in furtherance of, the LSC grant.

A. Non-Business Purposes

The Notice questioned costs for non-business purposes totaling $6,759.00. As determined by the OIG, LSC funds were used by LANC to buy flowers or make donations in lieu of flowers for various occasions that appeared to be personal life events of employees of a non-business nature, resulting in $6,422.00 spent on flower purchases in Calendar Year ("CY") 2009 and CY2010. In addition, OIG found that LANC made two cash donations totaling $110.00 in lieu of flowers for personal life events and $227.00 was charged to LSC funds for LANC's share of a holiday party, where no clear business purpose was identified.

Following LSC's receipt of LANC's response to the Notice, LANC submitted documentation (a journal entry posted general ledger) indicating that, as noted above, they re-classified $3,951.59 of the non-business purpose expenses in 2010 from their LSC fund to their general fund, reducing the costs for the non-business expenses to $2,807.41.[1]

As stated in the Notice, LSC finds the non-business costs to be unreasonable and not reflective of the actions a prudent person would take in the circumstances. *See* 45 CFR § 1630.2(g)(3). A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the same or similar circumstances prevailing at the time the decision was made to incur the cost. In determining the reasonableness of a given cost, LSC regulations require consideration of:

(1) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the recipient or the performance of the grant of contract;
(2) Whether the recipient acted with prudence under the circumstances, considering its responsibilities to its clients and employees, the public at large, LSC, and the federal government;
(3) The restraints or requirements imposed by such factors as generally accepted sound business practices, arm-length bargaining, Federal and state laws and regulations, and the terms and conditions of the grant or contact; and
(4) Significant deviations from established practices of the recipient which may unjustifiably increase the grant or contract cost.

See 45 CFR § 1630.3(b). *See also*, OMB Circular A-122, 2 CFR Part 230, Appendix A and B, which contain examples of both allowable and non-allowable costs.

[1] This includes $2,470.41 for flowers, $110.00 for donations, and $227.00 for a holiday party.

LSC also finds that any donations paid to an organization or individuals with LSC funds violates 45 CFR § 1627.5, which provides that any contributions or gifts of Corporation funds to another organization or to an individual are prohibited.

As such, LSC finds that the costs incurred appear unnecessary or unreasonable and do not reflect the actions a prudent person would take in the circumstances, and that LANC is in violation of 45 CFR § 1627.5. Therefore, the costs incurred by LANC for non-business purposes in the amount of $2,807.41 are disallowed.

B. Credit Card Finance Charges

Regarding the credit card finance charges, the OIG found that LANC used LSC funds to pay finance charges and late fees related to credit card payments. The OIG noted that in response to a General Accounting Office report entitled "Legal Services Corporation: Improved Internal Controls Needed in Grants Management and Oversight" (December 2007), LSC's President issued a letter on March 28, 2008, reminding all grantees that penalties such as late fees were not allowable costs as they were unnecessary and not reasonable, pursuant to LSC regulation 45 CFR § 1630.2. In total, the OIG referred questioned costs in the amount of $178.52 in LANC disbursements of LSC funds.

In its response to the Notice, LANC conceded that due to an administrative error, late fees and finance charges were charged to LSC funds totaling $178.52. LANC noted in their response that the problems that resulted in the charges have long since been corrected and no longer are issues. LANC also agreed that these charges should not have been charged to LSC funds.

Inasmuch as LANC has conceded that these charges should not have been charged to its LSC fund, as the costs were unnecessary and not reasonable and not in compliance with OMB Circular A-122, 2 CFR Part 230, Appendix B, LSC has determined to disallow the costs, totaling $178.52, associated with the finance charges and late fees related to the credit card payments.

C. Identifying Business Meeting Purposes and Participants

Finally, the OIG also found that LANC paid for the meals of numerous attendees at nine (9) meetings, totaling $3,360.53. The payment requests for two (2) of the meals that cost $569.03 did not identify the business purpose related to the meals or identify the attendees. The OIG found that LANC had no policy that payment requests for such events describe the function's business nature and identify the participants. Because LANC management agreed to implement changes, the OIG only referred as unallowable costs, within the meaning of 45 CFR §§ 1630.2 and 1630.5, the $569.03 charged to LSC funds for the two purchase requests that did not include a description of the underlying business purpose. Accordingly, the Notice questioned costs totaling $569.03.

In its response to the Notice, LANC stated that the charges totaling $569.03 were legitimate lunch expenses for meetings that were scheduled for separate and large groups that traveled to Raleigh. However, this information and documentation had not been provided to the OIG during their audit.

LANC's response to the Notice provided an invoice totaling $323.25 and an explanation indicating that this expense involved a meeting of a committee of approximately 30 clients from their statewide Client Council, their client advisory board, which met on December 8, 2010 to discuss issues relevant to the Clients Council in preparation for a meeting of the LANC Board the following day. LANC also provided a second invoice totaling $245.78 with an explanation indicating that this expense was for lunch provided to staff from around the state gathered in Raleigh for an all day meeting to discuss the services to be provided and the administrative procedures connected to a statewide grant from the USDA. LANC further stated that approximately 27 local managers and staff advocates were in attendance on May 12, 2010.

As LANC has provided adequate documentation which included invoices of meals totaling $569.03 and identifying the attendees and business purpose related to the meals, the questioned costs in the amount of $569.03 are hereby vacated.

D. Total Disallowance

LANC's response argued that, in determining whether costs should be disallowed, LSC regulations require asking whether the recipient acted with prudence under the circumstances, considering its responsibilities to its clients and employees and the public at large, citing 45 CFR § 1630.3(b)(3). LANC's response answered that question as follows:

"Because of our experience raising funds and engendering local community support to serve clients here in North Carolina, we see these questioned costs not as wasteful and illegitimate, but as prudent, reasonable and necessary costs of doing business as a volunteer-based non-profit. These costs have helped us garner support and raise new funds in a multiplier effect that has increased our ability to provide services. They help us explain the 60% increase in client served throughout our State and thus directly benefit our work under the LSC grant. When so many long-experienced legal services managers and an equal number of outstanding attorney board members--with sound business backgrounds, devoted to our mission and fully-cognizant of their fiscal responsibilities to our clients and to the public at large--find the practice beneficial, it is difficult to understand how the prudence of the practice can be questioned. If the definition of prudence is to have any real meaning, the situation cannot be viewed in a vacuum; local circumstances must be taken into account. We do not suggest that the practice is prudent everywhere. The practice is prudent here in North Carolina because it is longstanding and is seen as one part of a larger recognition strategy. Indeed, prudence dictates that we not suddenly end the practice even though we will no longer employ LSC funds to maintain it."

LANC correctly argued that they will gain good will in the community by paying for flowers, paying for holiday parties, and providing donations. However, expenditures of LSC funds are to be reasonable and necessary for the performance of the grant, that is, for the purpose of providing civil legal services to the poor. In light of the fact that LSC routinely reports that 50 percent or more of eligible clients are turned away due to lack of funding, it is difficult to see how these expenditures could be deemed reasonable and necessary. More importantly, the question becomes whether or not the expenditures of LSC funds in this manner is a violation of a provision of law, regulation, contract, grant , or other agreement or document governing the use of Corporation funds. *See* 45 CFR § 1630.2(g)(1). In the instant circumstances, the expenditure of the funds in question violated 45 CFR § 1630.3 (b), OMB Circular A-122, 2 CFR part 230, Appendix A and Appendix B, and/or 45 CFR § 1627.5.

Accordingly, for the reasons stated herein, LSC has determined to disallow a total of $2,985.93 in costs charged to LANC's LSC fund. This amount consists of $2,470.41 for flowers in 2009, $110.00 for donations, $227.00 for a holiday party, and $178.52 for late fees and finance charges.

Pursuant to 45 CFR § 1630.7(d)(2), it is the determination of LSC management that LANC should repay this cost by withholding of the amount, in equal installments, from LANC's remaining LSC grant checks for 2012. Such repayment shall begin with the first grant check scheduled following the expiration of the appeals deadline. Additionally, LANC must provide to OCE, no later than March 30, 2012, written documentation of the changes made to their policies and procedures to ensure that these kinds of questioned costs do not surface in the future.

Pursuant to 45 CFR § 1630.7(e), LANC may appeal in writing to the President of LSC within thirty (30) days of receiving this decision. The appeal should state in detail the reasons why LSC should allow part or all of the costs.

Sincerely,

Lora M. Rath, Acting Director
Office of Compliance and Enforcement

Attachments

Attachment A - Notice of Questioned Costs dated January 12, 2012 (with attachments).

Attachment B – LANC's Response to Notice of Questioned Costs dated January 25, 2012 (with attachments).

Attachment A

LSC

Legal Services Corporation
America's Partner For Equal Justice

VIA ELECTRONIC AND U.S. MAIL

January 12, 2012

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Julie A. Reiskin
Denver, CO

Gloria Valencia-Weber
Albuquerque, NM

RE: Notice of Questioned Cost

Dear Ms. Harris and Mr. Hausen:

Enclosed is the Legal Services Corporation's Notice of Questioned Cost dated January 12, 2012, issued pursuant to 45 Code of Federal Regulations Part 1630.

If you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

Lora M. Rath

Lora M. Rath
Acting Director
Office of Compliance and Enforcement

Enclosure: Notice of Questioned Cost

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LEGAL SERVICES CORPORATION
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In re	*
	*
LEGAL AID of NORTH CAROLINA, Inc.	*
(Recipient No. 634032)	*
	*
Chair: Celeste M. Harris	*
Executive Director: George R. Hausen, Jr.	*
	*
(Notice of Questioned Costs	*
Dated January 12, 2012)	*

NOTICE OF QUESTIONED COSTS

The Legal Services Corporation ("LSC" or "Corporation") hereby gives notice to Legal Aid of North Carolina, Inc. ("LANC") that the expenditure of LSC funds by LANC, totaling $7,506.55, are questioned as allowable costs under the provisions of 45 C.F.R. Part 1630.

STATEMENT OF FACTS

1. LSC is a federally funded, private, non-membership, nonprofit corporation, organized under the laws of the District of Columbia. Established by the Legal Services Corporation Act of 1974, 42 U.S.C. §§ 2996 *et seq.*, as amended, H.R. 6666, Pub. L. 95-222 (December 28, 1977) (the "LSC Act"), LSC is authorized, among other things, to provide financial assistance to qualified programs furnishing legal assistance to eligible clients, to make grants to and contracts with other entities for the purpose of providing legal assistance to clients eligible for legal assistance under the LSC Act, and to make such other grants and contracts as are necessary to carry out the purposes and provisions of the LSC Act. *See* 42 U.S.C. § 2996e(a)(1). LSC also has authority to ensure that its grant recipients comply with the provisions of the LSC Act and the rules, regulations, and guidelines promulgated by LSC pursuant to the LSC Act. *See* 42 U.S.C. § 2996e(b)(1)(A). All LSC grants and contracts are made subject to the provisions, requirements, restrictions, and limitations contained in the LSC Act, applicable appropriations acts and other applicable laws, the regulations promulgated by LSC, and such other rules, policies, guidelines, instructions and directives issued by LSC.

2. LANC is a nonprofit corporation existing under the laws of North Carolina, with its main office in Raleigh, NC. At all times relevant hereto, LANC received annual grants from LSC for the sole purpose of providing legal assistance to persons eligible for legal assistance under the LSC Act residing in a 61 county area of North Carolina. In 2007, LANC received an LSC grant in the amount of $8,760,621.00; in 2008, $8,803,780.00; in 2009, $9,688,687.00; in 2010, $12,283,849.00; and in 2011, $10,028,803.00. At all times relevant hereto, LANC agreed, in

writing, to comply with the requirements of the LSC Act, applicable appropriations acts and other applicable laws, the regulations promulgated by LSC, and such other rules, policies, guidelines, instructions and directives issued by LSC, including, but not limited to, the Accounting Guide for LSC Recipients and the LSC Property Acquisition and Management Manual.

3. The LSC Office of the Inspector General ("OIG") assessed the adequacy of selected internal controls in place at LANC related to grantee operations and oversight. Audit work was conducted at LANC's main office and branch offices in Raleigh, North Carolina, and at LSC headquarters in Washington, DC. The on-site fieldwork was conducted from January 31, 2011 through February 11, 2011 and in a report dated September 30, 2011- *Report on Selected Internal Controls-Legal Aid of North Carolina, Inc. RNO 634032,* Report No. AU11-07, the OIG found that during the period January 1, 2009 through December 31, 2010, LSC funds were used to buy flowers or make donations in lieu of flowers for various occasions that appeared to be personal life events of employees of a non-business nature. LANC spent a total of $6,422.00 on flower purchases in calendar years ("CY") 2009 and 2010. All of the flowers purchases sampled by the OIG were non-business expenses paid for with LSC funds. LANC also made two cash donations totaling $110.00 in lieu of flowers for personal life events in violation of 45 C.F.R. § 1627.5, and charged $227.00 to LSC funds for LANC's share of a holiday party, where no clear business purpose was identified. As a result, the OIG questioned costs in the amount of $6,759.00 spent in CY 2009 and CY 2010 for non-business purposes as unnecessary or unreasonable. Additionally, the OIG found that LANC used LSC funds to pay finance charges and late fees related to credit card payments in the amount of

$178.52. The OIG questioned the $178.52 in finance charges and late fees allocated to LSC funds as not being reasonable and necessary. Finally, the OIG found that LANC charged two meals that cost $569.03 to LSC funds where the payment request did not identify the business purpose related to the meals or identify the attendees. As such, the OIG questioned the costs as not being supported by adequate documentation.

4. After reviewing the OIG report, including LANC's management responses to the OIG, LSC has determined that pursuant to its authority under 45 C.F.R. Part 1630, there is sufficient basis for disallowing the costs and incorporates the OIG's findings of fact and legal basis herein as Attachment A. *See* OIG's *Report on Selected Internal Controls-Legal Aid of North Carolina, Inc. RNO 634032,* Report No. AU11-07 (September 2011).

DISCUSSION AND ANALYSIS

LSC regulations provide uniform standards for the allowability of costs. *See* 45 C.F.R. Part 1630. Generally, expenditures by a recipient are allowable under the recipient's LSC grant or contract only if the recipient can demonstrate that the expenditures meet certain criteria. *See* 45 C.F.R. § 1630.3(a). Costs charged to a grant recipient's LSC fund may be disallowed, or questioned, upon a finding that there has been a violation of a provision of law, regulation, contract, grant, or other agreement or document governing the use of LSC funds, the cost is not supported by adequate documentation, or the cost incurred appears unnecessary or unreasonable and does not reflect the actions a prudent person would take in the circumstances. *See* 45 C.F.R. § 1630.2(g).

When the OIG, the Government Accounting Office ("GAO"), or an independent auditor or other audit organization authorized to conduct an audit of a grant recipient has identified and referred a questioned cost to LSC, LSC management shall review the findings of the OIG, GAO, or independent auditor or other authorized audit organization, as well as the grant recipient's written response to the findings, in order to determine accurately the amount of the questioned cost, the factual circumstances giving rise to the cost, and the legal basis for disallowing the cost. *See* 45 C.F.R. § 1630.7(a). If LSC determines that there is a basis for disallowing a questioned cost, and if not more than five years have elapsed since the recipient incurred the cost, LSC shall provide the recipient written notice of its intent to disallow the cost. The written notice shall state the amount of the cost and the factual and legal basis for disallowing it. *See* 45 C.F.R. § 1630.7(b)[1]

Questioned cost means a cost that a recipient has charged to Corporation funds which Corporation management, the OIG, the GAO, or an independent auditor or other audit organization authorized to conduct an audit of a recipient has questioned because of an audit or other finding that: (1) There may have been a violation of a provision of law, regulation, contract, grant, or other agreement or document governing the use of Corporation funds; (2) The cost is not supported by adequate documentation; or (3) The cost incurred appears unnecessary or unreasonable and does not reflect the actions a prudent person would take in the circumstances. In all the costs referred by the OIG as questionable, at least one or more of the conditions exist.

[1] The recovery of a disallowed cost does not constitute a permanent reduction in the annualized funding level of the recipient, nor does it constitute a termination of financial assistance under 45 C.F.R. Part 1606, or a suspension of funding under 45 C.F.R. Part 1623. *See* 45 C.F.R. § 1630.9(b).

The OIG reviewed certain internal control weaknesses identified at LANC. Recipients are required to establish and maintain adequate accounting records and internal control procedures. The internal controls are designed to provide reasonable assurance of reliable financial reporting, compliance with the laws and regulations having a direct and material effect on the recipient, and safeguarding assets against unauthorized use or disposition. *See* Accounting Guide for LSC Recipients ("LSC Accounting Guide"), Section 3-1 (2010 Edition); *see also* Audit Guide for Recipients and Auditors (1996). The OIG identified internal control weaknesses at LANC including the following:

A. Non-Business Purposes

As determined by the OIG, LSC funds were used by LANC to buy flowers or make donations in lieu of flowers for various occasions that appeared to be personal life events of employees of a non-business nature, resulting in $6,422.00 spent on flower purchases in CY 2009 and CY 2010. In addition, OIG found that LANC made two cash donations totaling $110.00 in lieu of flowers for personal life events and charged $227.00 to LSC funds for LANC's share of a holiday party, where no clear business purpose was identified.

In response to the OIG report, LANC indicated that they and their predecessor organizations have treated these types of expenditures as normal business expenses in maintaining a positive working environment. LANC also stated that they will cease using LSC funds for non-business function purposes. LANC further stated that gestures of goodwill are essential and a legitimate expense for an organization that relies so heavily on volunteers, but such expenses will be reallocated

in the future. Finally, LANC asserted that the "so-called "holiday party" involved lunch for an office's staff meeting and work plan retreat and was, thus, a legitimate expense."

As noted by the OIG, LSC regulation 45 C.F.R. Part 1630, Cost Standards and Procedures, provides that expenditures by a recipient are allowable under the recipient's grant or contract only if the recipient can demonstrate the cost was: actually incurred in the performance of the grant or contract and the recipient was liable for payment and reasonable and necessary for the performance of the grant or contract as approved by LSC. The OIG further stated that expenditures of LSC funds are to be reasonable and necessary for the performance of the grant, that is, for the purpose of providing civil legal services to the poor. Finally, the OIG noted that in light of the fact that LSC routinely reports that 50 percent or more of eligible clients are turned away due to lack of funding, it is difficult to see how these expenditures could be deemed reasonable and necessary.[2]

As noted *supra,* expenditures by a grant recipient are allowable under the recipient's LSC grant or contract only if the recipient can demonstrate, *inter alia*, that the expenditure was actually incurred in the performance of the grant or contract and the recipient was liable for payment. *See* 45 C.F.R. § 1630.3(a)(1).

2 On September 30, 2005, LSC released the report on the *Justice Gap in America*. The report found that at least 80 percent of the civil legal needs of low-income Americans are not being met. The LSC "Unable to Serve" study, the first comprehensive national statistical study ever undertaken, established that for every client who receives service, one applicant was turned away, indicating that 50 percent of the potential clients requesting assistance from an LSC grantee were turned away for lack of resources on the part of the program. In 2009, the 2005 report (*Documenting the Justice Gap in America: The Current Unmet Civil Legal Needs of Low-Income Americans)* was updated and revealed a continuing major gap existing in our nation: for every person helped by LSC-funded legal aid programs, another is turned away. That was the primary finding in 2005 and LSC's collection of data from LSC-funded programs across the country in 2009 reaffirmed that finding.

LSC finds that the cost is unreasonable and does not reflect the actions a prudent person would take in the circumstances. *See* 45C.F.R. § 1630.2 (g)(3). A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the same or similar circumstances prevailing at the time the decision was made to incur the cost. In determining the reasonableness of a given cost, LSC regulations require consideration of:

(1) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the recipient or the performance of the grant of contract;
(2) The restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, Federal and State laws and regulations, and the terms and conditions of the grant or contract;
(3) Whether the recipient acted with prudence under the circumstances, considering its responsibilities to its clients and employees, the public at large, LSC, and the federal government; the restraints or requirements imposed by such factors as generally accepted sound business practices, arm-length bargaining, Federal and state laws and regulations, and the terms and conditions of the grant or contact, *See* 45 C.F.R. § 1630.3(b)(2); and
(4) Significant deviations from established practices of the recipient which may unjustifiably increase the grant or contract cost.

See 45 C.F.R. § 1630.3(b). *See also,* OMB Circular A-122, 2 C.F.R. Part 230, Appendix A.

LSC also finds that any donations paid to an organization or individuals with LSC funds violates 45 C.F.R. § 1627.5, which provides that any contributions or gifts of Corporation funds to another organization or to an individual are prohibited.

As such, LSC finds that the costs incurred appear unnecessary or unreasonable and do not reflect the actions a prudent person would take in the same or similar circumstances pursuant to 45

C.F.R. Part 1630, and that LANC also violated 45 C.F.R. § 1627.5 by making donations in lieu of flowers. Therefore, the costs incurred by LANC in the amount of $6,759.00 are being questioned.

B. Credit Card Late Fees and Finance Charges

The OIG found that LANC used LSC funds to pay finance charges and late fees related to credit card payments. In total, the OIG questioned disbursements of LSC funds for these purposes in the amount of $178.52.

Again, expenditures by a grant recipient are allowable under the recipient's LSC grant or contract if the recipient can demonstrate that the expenditure was in compliance with, *inter alia*, the Accounting Guide for LSC Recipients. *See* 45 C.F.R. § 1630.3(a)(4). Additionally, the costs must be reasonable or necessary. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the same or similar circumstances prevailing at the time the decision was made to incur the cost. *See* 45 C.F.R. § 1630.3(b). As noted by the OIG in its Report, LSC's President issued a letter on March 28, 2008, reminding all grantees that penalties such as late fees were not allowable costs as they were unnecessary and not reasonable, referring to LSC regulation 45 C.F.R. § 1630.2.

As such, LSC finds that the disbursements totaling $178.52 were unnecessary and unreasonable. Therefore, these costs are being questioned.

C. Identifying Business Meeting Purposes and Participants

Finally, the OIG also found that LANC paid for the meals of numerous attendees to nine meetings that cost $3,360.53. The payment requests for two of the meals that cost $569.03 did not identify the business purpose related to the meals or identify the attendees. The OIG found that LANC has no policy that payment requests for such events must describe the function's business nature and identify the participants. In response to the OIG, LANC disagreed with the OIG's questioning of $3,360.53 spent on meals provided at meetings because LANC believed the meetings were for a legitimate business purpose. However, because LANC management agreed to implement changes to include updating and formalizing the financial procedures in its accounting and policy manuals, the OIG only referred the $569.03 charged to LSC funds for the two purchase requests that did not include a description of the underlying business purpose to LSC management as questionable.

The payment requests for two of the meals that cost $569.03 did not identify the business purpose related to the meals or identify the attendees and this information is necessary to justify the reimbursement as an allowable business expense, chargeable to LSC funds. The OIG Report also noted that LSC's Fundamental Criteria requires grantees to retain documentation supporting the reason for each disbursement.

Again, expenditures by a grant recipient are allowable under the recipient's LSC grant or contract if the recipient can demonstrate that the expenditure was in compliance with, *inter alia*, the Accounting Guide for LSC Recipients. *See* 45 C.F.R. § 1630.3(a)(4). Additionally, the recipient

must demonstrate that the cost is adequately and contemporaneously documented. *See* 45 C.F.R. § 1630.3(a)(9).

As noted by the OIG Report, the payment requests for two of the meals that cost $569.03 did not identify the business purpose related to the meals or identify the attendees and this information is necessary to justify the reimbursement as an allowable business expense, chargeable to LSC funds.

As such, LSC finds that the disbursements totaling $569.03 were not adequately and contemporaneously documented. Therefore, this cost is being questioned.

CONCLUSION

For the reasons set forth above, LSC finds that there is sufficient basis for disallowing the following costs that were charged to LSC funds: $6,759.00 in costs unrelated to business, therefore, unnecessary or unreasonable and not reflective of the actions a prudent person would take in the same or similar circumstances and donations made with LSC funds in violation of 45 C.F.R. § 1627.5; $178.52 in credit card late fees and finance charges as unnecessary or unreasonable and not reflective of the actions a prudent person would take in the same or similar circumstances; and $569.03 in disbursements as not supported by adequate documentation. Total questioned costs are $7,506.55.

In accordance with 45 C.F.R. § 1630.7(b), LANC may, within 30 days of its receipt of this Notice, respond to the undersigned with written evidence and argument to demonstrate that the questioned costs were allowable, or that LSC, for equitable, practical, or other reasons, should not recover all or part of the questioned amount, or that any recovery should be made in installments. If

LANC fails to so respond within the time allotted, the costs herein questioned, totaling $7,506.55, will be disallowed and recovered from the next grant checks otherwise payable to LANC beginning March 1, 2012.

LEGAL SERVICES CORPORATION

BY: Lora M. Rath, Acting Director
Office of Compliance and Enforcement

Dated: January 12, 2012

ATTACHMENT A

Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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September 30, 2011

Mr. George R. Hausen, Jr.
Executive Director
Legal Aid of North Carolina
224 South Dawson Street
Raleigh, North Carolina 27611-6087

Dear Mr. Hausen:

Enclosed is the Office of Inspector General's (OIG) final report of our audit on Selected Internal Controls at Legal Aid of North Carolina. The OIG has reviewed your comments on the findings and recommendations contained in a draft of this report and made the following determinations.

The corrective actions planned or taken are responsive to 13 of the 14 recommendations included in the final report. Recommendation 6 was withdrawn from the final report based on additional information and review by the OIG. Recommendation 13 was considered nonresponsive and will be forwarded to LSC for resolution. Actions taken in response to the Recommendations 11 and 15 are sufficient and the recommendations are considered closed. The remaining 12 recommendations will remain open until all actions have been completed and the OIG is notified in writing.

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

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

cc: James Sandman
President, Legal Services Corporation

LSC
America's Partner For Equal Justice

LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL

REPORT ON SELECTED INTERNAL CONTROLS

LEGAL AID OF NORTH CAROLINA, INC.

RNO 634032

Report No. AU11-07

SEPTEMBER 2011

www.oig.lsc.gov

EXECUTIVE SUMMARY

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Legal Aid of North Carolina, Inc. (grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's main office in Raleigh, and at LSC headquarters in Washington, DC. The on-site fieldwork was conducted from January 31 through February 11, 2011.

Overall, internal controls tested were adequate, but several controls need to be developed or strengthened. Disbursements tested were for the most part adequately supported, allowable, and appeared to be properly allocated to LSC. The grantee's controls over purchasing and compliance with LSC's regulation on lobbying and legislative activity were among the areas that need developing or strengthening, and other procedures, such as cost allocation and contracting, appeared reasonable but were not documented. The following are areas that needed improvement:

- The grantee's purchasing and contracting procedures and processes need to be strengthened. Purchasing and receiving duties were not adequately separated. A three-way matching system that requires the purchase order, invoice, and receiving report be completed or compared and on file before a payment is made was not used. Policies and procedures for awarding consulting and service contracts were not documented. Documentation was not kept that supported the grantee's solicitation of multiple vendors, and receipt and analyses of bids or cost estimates.

- Unnecessary or unallowable expenses totaling $7,506 were charged to LSC funds for the purchase of flowers, a holiday party, meals that did not describe the underlying business purpose, and finance charges. As a result, the OIG is questioning those costs.

- Internal controls over financial operations need to be improved. These include strengthening controls over credit cards, providing financial reports with variance data to the grantee's Board of Directors, documenting position descriptions, and developing and documenting policies for managing grantee vehicles.

- Policies and procedures need to be formulated, formalized or revised in several areas, to include the awarding of contracts; allocating costs; reimbursing for personal mobile communication plans; identifying participants attending and purposes of business meetings where meals are provided (the OIG is questioning $569 in meal costs); handling source documents after scanning; and ensuring that differences do not exist between documented policy and actual practice.

- The grantee did not adequately control and document its compliance with LSC's restrictions on legislative activity (45 CFR § 1612.6), and used LSC funds for the activity in violation of the regulation.

For two of the issues noted above, the grantee had initiated corrective action. Specifically, the Executive Director issued instructions to all grantee staff that should ensure that their involvement in legislative activities is properly reported as required by LSC's regulation 45 CFR Part 1612, and had the finance staff prepare an adjusting journal entry to reverse improper charges to LSC funds related to the legislative activities. Also, the grantee's staff prepared a revised vehicle usage log to better ensure accurate reporting of mileage, and began safeguarding the gas credit card in a more secure area.

Based on discussions with LSC management officials, review of additional documentation and policy statements, and discussions with OIG legal counsel, we have determined that the grantee was not required to obtain prior approval for three large expenditures as stated in the draft report. Subsequent to issuing 45 CFR Part 1630, LSC provided guidance in its Property Acquisition and Management Manual (PAMM). Unlike 45 CFR § 1630.5(b) which requires prior approval where the purchase price of an item is over $10,000, the PAMM states that prior approval is required for the expenditure of more than $10,000 of LSC funds. In each of the three cases identified, the grantee charged $9,999 to LSC funds and thus would not have had to obtain prior approval from LSC in accordance with the PAMM. Given the conflicting criteria for obtaining prior approval for such expenditures, the finding, related recommendation, and the questioned cost contained in the draft report have been withdrawn from the final report.

The OIG recommends that the Executive Director:

- segregate the ordering and receiving duties by including an individual other than the Assistant Director and the Director of Information Technology into the process;

- institute a purchase order system to better ensure that it has adequate internal control of purchases over a minimum dollar amount;

- formulate and formalize the grantee's contracting policy and procedures;

- ensure that all solicitations and bid analyses are documented and maintained for an appropriate amount of time;

- formulate a policy and procedure to ensure that cost benefit analyses are conducted and documented for purchases over a minimum dollar value;

- formulate policies and procedures prohibiting the use of LSC funds for non-business functions or purposes, including but not limited to the purchase of flowers, donations in lieu of flowers, holiday parties, late fees or finance charges. All grantee staff should be briefed on these policies, emphasizing that LSC funds are to be used for business purposes only;

- ensure that all documentation evidencing credit card charges is provided to the finance office prior to processing payments;

- revise the grantee's management reporting policy and procedures to include variance information as part of the monthly financial data provided to the Board of Directors and its Finance Committee;

- ensure that all employees have detailed, documented position descriptions;

- ensure that all policies and procedures are fully documented and that documented procedures and actual procedures agree;

- ensure that year-end cost allocation comparisons for individual grants are conducted to determine (a) whether actual charges have exceeded funded charges, and (b) whether those unfunded charges are allowable as charges to LSC;

- ensure that the policy and procedures clearly require that Paper Save completely and legibly replicate the source document prior to disposing of the source document; and

- provide periodic training to staff on the requirements of Part 1612, and formalize the revised policy and procedures as described in the Executive Director's email to all staff.

Summary of Grantee Comments:

Grantee management generally agreed with the recommendations, but did take issue with some of the questioned costs contained in the report and the classification of some of the questioned costs being identified as not legitimate business expenses. While grantee management took exception with some of the findings or portions of the findings, grantee management agreed with 13 of the 14 final recommendations.

While agreeing with the recommendation to only spend LSC's funds for business purposes, grantee management believed that the $6,532 of LSC's funds spent on flowers or cash gifts to recognize non-business, personal life events of employees was a legitimate business expense by expressing goodwill by an

organization that relies heavily on volunteers and may have even been considered a *de-minimis* expense by prior LSC reviewers.

Grantee management disagreed with the finding and recommendation on conducting year-end cost allocation assessments by stating that it believes "...that year-end grant comparisons are conducted by the finance and accounting staff and that management does not permit the unreviewed allocation of operational expenses to LSC funds."

In its response to the finding on unsupported meal expenses, the grantee agreed with the recommendation to document all policies and procedures, but disagreed with the finding that $3,360 in meal charges should be questioned because they were in fact proper business expenditures.

The grantee's response to each finding and recommendation is included in the body of the report as an excerpt or is paraphrased as we believed appropriate. The full text of management's comment is attached to the report as an Appendix.

OIG Evaluation of Grantee's Response:

The OIG considers the grantee's planned actions to be responsive to 13 of the 14 final recommendations. The OIG will refer the nonresponsive recommendation to LSC management for resolution. The OIG considers 12 of the 14 recommendations as open until such time as written notification is received by the OIG that all actions have been completed.

The OIG disagrees with grantee management's comments about the use of LSC funds to observe special occasions in the lives of staff and volunteers. While grantee management considers this use of funds a legitimate expense, we find that it is not a legitimate use of LSC funds. Expenditures of LSC funds are to be reasonable and necessary for the performance of the grant, that is, for the purpose of providing civil legal service to the poor. Especially in light of the fact that LSC routinely reports that 50 percent or more of eligible clients are turned away due to lack of funding, it is difficult to see how these expenditures could be deemed reasonable and necessary.

As for conducting year-end cost allocation reviews, based on our discussions with the finance staff and our review of the grantee's allocation methodology, we believe the grantee does not conduct year-end assessments of costs to ensure that unallowable charges are not allocated to LSC. The grantee periodically allocates costs against various non-LSC grants as long as there are non-LSC grants funds available. Once non-LSC grants funds are exhausted, expenditures are allocated to LSC. At that point, the grantee does not evaluate the allowability of the expenditures to be charged to LSC funds. If non-LSC grants funds are exhausted before the year ends, then no additional assessment is performed on

charges that may be related to those exhausted funds. The finding and recommendation remain unchanged and will be referred to LSC management for resolution.

The OIG re-evaluated the invoices for those meals that were found to have insufficient support for the business nature of the expense. Two of the nine had no documentation as to the business nature of the expense, and the other seven contained cryptic references to an underlying purpose, but not necessarily a business purpose. However, the grantee's comments to the draft report provide a reasonable basis to accept the seven expenses with minimal descriptions as having a reimbursable business purpose. Nonetheless, the need for a clarifying explanation supports our finding that the cryptic notations were insufficient on their own to identify a reimbursable business purpose for the expense. Therefore, the grantee needs to ensure that a sufficiently clear statement of business purpose, and the identity of attendees and their affiliations accompanies all reimbursement requests where the grantee subsidizes meals for group functions. As a result, the questioned cost amount contained in the draft has been reduced from $3,360 to $569 for the two charges that had no notation as to business purpose.

TABLE OF CONTENTS

INTRODUCTION 1

OBJECTIVE 1

SCOPE AND METHODOLOGY 2

OVERALL EVALUATION 3

AUDIT FINDINGS 4

PURCHASING AND CONTRACTING PROCEDURES NEED IMPROVEMENT 4
- Segregation of Purchasing and Receiving Duties 5
- Processing Payments for Purchases 5
- Consulting and Service Contracts Policy and Procedures 6
- Solicitations and Bids 6
- Cost Benefit Analyses 7
  - Recommendations 1-5 7
- Grantee Response 7
- Evaluation of Grantee Response 8

EXPENDITURES NOT ALLOWED 8
- LSC Funds Used for Unallowable Purposes 8
  - Non-Business Purposes 8
  - Credit Card Late Fees and Finance Charges 9
    - Recommendation 6 (Withdrawn)[1]
    - Recommendation 7 9
- Grantee Response 9
- Evaluation of Grantee Response 10

CONTROL IMPROVEMENTS 10
- Credit Card Purchase Receipts 10
  - Recommendation 8 10
  - Grantee Response 10
  - Evaluation of Grantee Response 11
- Variance Data in Financial Reports to the Board of Directors 11
  - Recommendation 9 11
  - Grantee Response 11
  - Evaluation of Grantee Response 11
- Position Descriptions 12
  - Recommendation 10 12

[1] Recommendation 6 and the related finding were removed from the final audit report. To maintain connection with grantee management comments, the subsequent recommendations were not renumbered.

Grantee Response 12
Evaluation of Grantee Response 13
Grantee's Owned and Leased Vehicles 13
Recommendation 11 13
Grantee Response 13
Evaluation of Grantee Response 13

POLICIES AND PROCEDURES 14
Cost Allocation Procedures 14
Reimbursement for Personal Mobile Communication Plans 15
Identifying Business Meeting Purposes and Participants 15
Handling Source Documents After Scanning Into Paper Save 15
Updating the Accounting Manual 16
Recommendations 12 - 14 16
Grantee Response 16
Evaluation of Grantee Response 16

COMPLIANCE WITH 45 CFR PART 1612 17
Recommendation 15 18
Grantee Response 18
Evaluation of Grantee Response 18

APPENDIX – GRANTEE MANAGEMENT COMMENTS

INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Legal Aid of North Carolina, Inc. (grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's main office and one branch office, both in Raleigh, North Carolina, and at LSC headquarters in Washington, DC. The on-site fieldwork was conducted from January 31 through February 11, 2011. Documents reviewed pertained to the period January 1, 2009 through December 31, 2010.

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 recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:
>
> - safeguarding of assets against unauthorized use or disposition;
> - reliability of financial information and reporting; and
> - 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 concerns" such as preventing defalcations and meeting the complete financial information needs of its management.

OBJECTIVE

The overall audit objective was to assess the adequacy of selected internal controls in place at Legal Aid of North Carolina, Inc. (grantee) as the controls related to specific grantee operations and oversight, including program expenditures, fiscal accountability, and compliance with selected LSC regulations. 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. In addition, the audit examined selected regulatory policies and grantee processes to assess whether controls were designed in a manner expected to ensure compliance with the LSC Act and the selected LSC regulations. However, the objective was not to reach a conclusion on compliance with any specific regulation.

SCOPE AND METHODOLOGY

To accomplish the objective, controls over disbursements, internal management reporting and budgeting, selected LSC regulations, and employee benefits and reimbursements were reviewed. To obtain an understanding of the internal controls over these areas, grantee policies and procedures were reviewed, including any manuals, guidelines, memoranda, and directives setting forth current grantee policies. Grantee officials were interviewed to obtain an understanding of the internal control framework, and grantee management and staff were interviewed as to their knowledge and understanding of the processes in place. Computer-generated data provided by the grantee was relied on to determine whether entries recorded in computer systems matched the information contained on the source documents. However, the OIG did not test the general or application controls over the computer system because the controls were not considered significant to the audit objective. Fieldwork was conducted at the grantee's central administrative office and one branch office. Both offices were located in Raleigh, North Carolina.

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 of 96 transactions totaling $146,721 represented 0.3 percent of the over $47.9 million the grantee received during the period January 1, 2009, through December 31, 2010. To assess the appropriateness of grantee expenditures, we reviewed invoices, vendor lists, and general ledger details. The appropriateness of grantee expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

To review internal controls over internal management reporting and budgeting, the grantee's system and processes were compared to those detailed in the *Fundamental Criteria of an Accounting and Financial Reporting System* (*Fundamental Criteria*) contained in the Accounting Guide.

To review internal controls over compliance with specific LSC regulations (45 CFR Parts 1610, 1612, and 1617), written compliance policies and procedures were examined, including applicable LSC mandated recordkeeping requirements, applicable documentation and reports were reviewed, and staff members were interviewed to determine if the controls were designed in a manner to ensure compliance with the provisions of the respective LSC regulation.

This review was limited in scope and not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations or compliance with LSC regulations.

The on-site fieldwork was conducted from January 31 through February 11, 2011. Documents reviewed pertained to the period January 1, 2009 through December 31,

2010. Our work was conducted at the grantee's administrative and branch offices in Raleigh, and at LSC headquarters in Washington, DC.

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 audit objectives.

OVERALL EVALUATION

Generally, internal controls reviewed at Legal Aid of North Carolina, Inc. were adequate as the controls related to specific grantee operations and oversight, including program expenditures, fiscal accountability, and compliance with LSC regulations. However, some controls need to be strengthened or formalized. The grantee's disbursements that were tested were, for the most part, adequately supported and allowable. We did find $7,506 in charges that we believe should not have been charged to LSC. These included purchases of flowers for personal life events of employees, a holiday party, finance charges, and meals for others that did not clearly identify the underlying business purpose. We are questioning those costs. We also noted there was inadequate segregation of duties with regard to the purchase, receipt and approval for payment of capital expenditures, including information technology equipment. In addition to better segregation of duties, the grantee could improve its oversight of purchases by instituting a purchase order system to monitor purchases from ordering through receipt of goods and services and payment, and better document its solicitations and bids, and cost benefit analyses.

Internal controls over compliance with LSC regulations 45 CFR Parts 1610 and 1617 were adequately designed. However, the grantee was not in compliance with 45 CFR Part 1612, Restrictions on Lobbying and Certain Other Activities. While we were on-site, the grantee initiated new policies and procedures to better oversee and control activities related to 45 CFR § 1612.6, and reallocated to non-LSC funds those related expenditures that had been charged to LSC funds in violation of the regulation.

Other issues noted include the need to:

- improve the processing of credit card statements;
- provide the Board of Directors with financial reports identifying variances between budget and actual expenditures;
- document the position descriptions of the administrative and financial staff in the grantee's Administrative Office; and

- formulate, formalize or revise policies and procedures governing contracting and consulting agreements, allocating costs to funding sources, subsidizing employee cell phones and related devices, destroying source documents after scanning into "Paper Save," documenting the business purpose of and identifying participants in meetings where the grantee subsidizes meals, and controlling grantee-owned or leased vehicles.

Regarding vehicle usage, the grantee's Administrative Office revised its control log during the audit for monitoring the use of the vehicle which it controls. The grantee also needs to ensure that vehicles controlled by the branch offices are also properly monitored.

Based on discussions with LSC management officials, review of addition documentation and policy statements, and discussions with OIG legal counsel, we have determined that the grantee was not required to obtain prior approval for three large expenditures as stated in the draft report. Subsequent to issuing 45 CFR Part 1630, LSC provided guidance in its Property Acquisition and Management Manual (PAMM). Unlike 45 CFR § 1630.5(b) which requires prior approval where the purchase price of an item is over $10,000, the PAMM states that prior approval is required for the expenditure of more than $10,000 of LSC funds. In each of the three cases identified, the grantee charged $9,999 to LSC funds and thus would not have had to obtain prior approval from LSC in accordance with the PAMM. Given the conflicting criteria for obtaining prior approval for such expenditures, the finding, related recommendation, and the questioned cost contained in the draft report have been withdrawn from the final report.

AUDIT FINDINGS

PURCHASING AND CONTRACTING PROCEDURES NEED IMPROVEMENT

The grantee's purchasing and contracting procedures and processes need to be strengthened. Purchasing and receiving duties were not adequately separated. Two managers, the Assistant Director and the Director of Information Technology (IT Director) have significant control over purchases of significant dollar value. The grantee does not use a three-way matching system that requires that the purchase order, invoice, and receiving report be completed or compared, and on file, before a payment is made. Except for library purchases, invoices are approved for payment without any other independent documentation supporting the authorization, receipt, and condition of items received. Policies and procedures for awarding consulting and service contracts were not documented. Documentation was not kept that supported the grantee's solicitation of multiple vendors, and receipt and analyses of bids or cost estimates. The grantee did not always document cost benefit analyses for capital expenditures.

The Executive Director and Assistant Director both stated that some of the processes followed are due to reorganizations that significantly reduced the administrative staff and resulted in several people in the Administrative Office, including the Assistant

Director, having to take on multiple tasks. The Executive Director stated that two primary reasons contracting policies are not documented is that the grantee has not done a lot of contracting, and the management team has been more focused on trying to ensure the grantee is operating well since the major reorganization and mergers that have occurred since 2002. He agreed, however, that the grantee should begin to focus on formalizing its policies and procedures.

The grantee's current practices are not in accordance with LSC's Accounting Guide and do not provide adequate assurance to its stakeholders that fair and competitive processes are used to purchase goods and services. To do so, the Accounting Guide requires the grantee to segregate purchasing and receiving responsibilities, establish a system for purchases that matches purchase orders and receiving reports, establish formal and comprehensive contracting and purchasing policies and procedures, document the vendors solicited and the analyses of the bids or cost estimates. The following are specific areas that need to be addressed.

Segregation of Purchasing and Receiving Duties

The grantee's policies and procedures do not provide for adequate segregation of duties with regard to those responsible for initiating and authorizing purchases, verifying receipt, and approving invoices. Two managers in the Administrative Office have significant control over the purchasing process for specific assets.

The Assistant Director has authority over building maintenance and improvements and some technology purchases such as copiers and phone systems. The Director of Information Technology (IT Director) has authority over most technology purchases including desk and laptop computers, servers, software and handheld devices. Both of these managers initiate purchases, verify that the purchases have been received or services completed, and authorize payment for those goods and services. The Assistant Director is also an authorized signatory on checks for the grantee's operating account from which vendor payments are made. The IT Director can purchase IT equipment up to $5,000 on his own authority. Purchases over $5,000, however, must be approved by the Assistant Director.

While the grantee's accounting manual indicated that both managers are fully involved in the purchasing and receipt process, each of these individuals has too much control over the process as a whole.

Processing Payments for Purchases

The grantee does not use a three-way matching system that requires the purchase order, invoice, and receiving report be completed, compared, and on file before a payment is made. The grantee does not prepare purchase orders or receiving reports for large dollar purchases such as computer equipment, and these documents are not

required to approve payments to vendors for such purchases. The grantee does use packing slips to document receipt of office supplies but these are small dollar purchases.

Consulting and Service Contracts Policy and Procedures

Policies and procedures for awarding consulting and service contracts were not documented. The grantee has hired or extended the contracts of two consultants during the period of our review. The Executive Director indicated that he had no prior experience in hiring consultants, but his description of the hiring process he used appeared reasonable. Nonetheless, the grantee does not have written policies or procedures to guide them through the contracting process.

Solicitations and Bids

Documentation was not on file that supported the grantee's solicitation of multiple vendors, including the receipt and analyses of bids or cost estimates. According to grantee management, multiple vendors were researched and cost analyses were performed for significant purchases. The following are transactions that we were advised were bid, but did not have bid documentation available for our review:

- Building improvements that cost $49,500;
- Two consulting contracts that cost $24,000 and $25,000; and
- Two telephone systems costing $18,908 and $19,498.

Our review also identified the rebuilding of a vehicle engine as a purchase that did not appear to have been bid out but, in our opinion, should have been bid in accordance with the grantee's policy to seek bids for capital expenditures exceeding $2,000. The rebuilt engine cost $2,829.

In soliciting contractors and bids, the Assistant Director stated that he relies on an informal procurement method centered on emails and telephone calls. However, no documentation was kept that supported his position that multiple vendors were solicited, and receipt and analyses of bids or cost estimates were performed.

The IT Director stated that based on his assessment of what certain suppliers can provide in terms of equipment and services, he has determined that all purchases besides software and mobile devices will be sent to the supplier CDW. The IT Director relies on an informal procurement method centered on emails and telephone calls. According to the IT Director, he performs an informal quote comparison to purchase software.

Cost Benefit Analyses

We noted that the grantee did not always document cost benefit analyses for capital expenditures. For instance, the Executive Director stated that he does a cost benefit analysis when considering buying or leasing a vehicle, and that he shops for the best price. He stated that he and the Assistant Director first determine whether a purchase or lease was a cost savings to the grantee versus mileage reimbursement and other travel costs. Other issues considered would be the typical purpose of the vehicle, its anticipated fuel consumption and maintenance costs, and the perception of fairness to staff in other locales. The Assistant Director would then check and compare prices with local dealerships and some in Raleigh before purchasing. However, he also stated that he kept some comparison notes but no other documentation of these efforts. The Assistant Director and IT Director also used the same informal practices for purchases that each oversaw.

Examples of purchases where the cost benefit analyses were not documented include the vehicles, rebuilt engine, and computer equipment.

Recommendations

The Executive Director should:

Recommendation 1: Segregate the ordering and receiving duties by including an individual other than the Assistant Director and the IT Director into the process.

Recommendation 2: Institute a 3-way matching system that includes using purchase orders, invoices and receiving reports to better ensure that the grantee has adequate internal control of purchases over a minimum dollar amount.

Recommendation 3: Formulate and formalize the grantee's contracting policy and procedures.

Recommendation 4: Ensure that all solicitations and bid analyses are documented and saved for an appropriate amount of time.

Recommendation 5: Formulate a policy and procedure to ensure that cost benefit analyses are conducted and documented for purchases over a minimum dollar value.

Grantee Response: Grantee management agreed with Recommendations 1 through 5. Grantee management stated that while it believed it had good controls in place for purchasing and contracting, the controls will be strengthened and the improvements formalized. The full text of management's comments is attached to the report as an Appendix.

Evaluation of Grantee Response: The grantee's actions taken and planned are responsive to Recommendations 1 through 5. Because the recommendations are related, Recommendations 1 through 5 will remain open until all management actions are completed and the OIG is notified in writing of such.

EXPENDITURES NOT ALLOWED

For the most part, disbursements tested were adequately supported, allowable, and appeared to be properly allocated. However, $6,938 of other unnecessary or unallowable expenses was charged to LSC funds.

LSC Funds Used for Unallowable Purposes

The grantee used LSC funds that were not clearly business-related, or were used to pay credit card late fees and finance charges.

Non-Business Purposes

LSC funds were used to buy flowers or make donations in lieu of flowers for various occasions that appeared to be personal life events of employees of a non-business nature. The grantee spent $6,422 on flower purchases in CY 2009 and CY 2010 of which we sampled $561. All of the flower purchases sampled were non-business expenses paid for with LSC funds. The grantee also made two cash donations totaling $110 in lieu of flowers for personal life events. In addition, $227 was charged to LSC funds for the grantee's share of a holiday party where no clear business purpose was identified.

According to the Executive Director, the grantee and its predecessor organizations have treated these types of expenditures as normal business expenses in maintaining a positive working environment. Therefore, the grantee considered these types of expenditures as allowable charges to LSC funds.

LSC Regulation § 1630.3, Costs Standards and Procedures, states that:

> *Expenditures by a recipient are allowable under the recipient's grant or contract only if the recipient can demonstrate that the cost was*
> - *Actually incurred in the performance of the grant or contract and the recipient was liable for payment; and*
> - *Reasonable and necessary for the performance of the grant or contract as approved by LSC.*

As a result, we are questioning as unallowable costs $6,759.21 spent in CY 2009 and CY 2010 for non-business purposes and will refer these costs to LSC management for review and action.

Credit Card Late Fees and Finance Charges

The grantee used LSC funds to pay finance charges and late fees related to credit card payments. As cited above, LSC Regulation § 1630.3 requires costs to be reasonable and necessary for the performance of the grant. In response to a Government Accountability Office report, LSC's President issued a letter on March 28, 2008, reminding all grantees that penalties such as late fees were not allowable costs as they were unnecessary and not reasonable. The letter referred to LSC regulation, § 1630.2, which categorizes unnecessary or unreasonable expenditures as questioned costs. Therefore, the OIG is questioning the $178.52 in finance charges and late fees allocated to LSC funds as not being reasonable and necessary, and will refer these costs to LSC management for review and action.

Recommendation 7: The Executive Director should formulate policies and procedures to prohibit the use of LSC funds for non-business functions or purposes, including but not limited to the purchase of flowers, donations in lieu of flowers, holiday parties, late fees or finance charges. These policies should be briefed to all grantee staff, emphasizing that LSC's funds are to be used only for business purposes.

Grantee Response: Grantee management agreed with Recommendation 7 and indicated that grantee will not use LSC funds for non-business purposes. Though agreeing with the recommendation, grantee management believed the purchases were legitimate business expenses and that the questioned costs were *de minimis*. The full text of grantee management comments for Recommendation 7 is included below.

> We agree with Recommendation 7 regarding the use of LSC funds for business purposes. LANC [grantee] will cease using LSC funds for non-business functions or purposes. Although $6000 seems like a large sum, the OIG must remember that LANC is the consolidation of 25 offices, many of which once were independently-funded LSC programs. Considering that, in addition to our staff and statewide board, each office maintains a Local Advisory Council and a panel of pro bono volunteers, an average of less than $300 a year for each office is not a large sum for recognition of special events in the lives of our staff and volunteers. Moreover, this courtesy and its allocation appear to [sic] a longstanding practice, which apparently was unremarkable and perhaps considered *de minimis* by LSC when individual offices were reviewed. Gestures of goodwill are essential and a legitimate expense for an organization that relies so heavily on volunteers, but we will re-allocate such expenses in the future.
>
> We believe the so-called "holiday party" involved lunch for an office's staff meeting and work plan retreat and was, thus, a legitimate expense.

Evaluation of Grantee Response: The grantee's comments are responsive to Recommendation 7. The recommendation will remain open until the grantee provides written notification and appropriate documentation to the OIG that all actions have been completed. The OIG disagrees with grantee management's comments about the use of LSC funds to observe special occasions in the lives of staff and volunteers. While grantee management considers this use of funds a legitimate expense, we find that it is not a legitimate use of LSC funds. Expenditures of LSC funds are to be reasonable and necessary for the performance of the grant, that is, for the purpose of providing civil legal service to the poor. Especially in light of the fact that LSC routinely reports that 50 percent or more of eligible clients are turned away due to lack of funding, it is difficult to see how these expenditures could be deemed reasonable and necessary.

CONTROL IMPROVEMENTS

The OIG also identified other actions that grantee management can take to strengthen internal controls over financial operations. These include strengthening controls over credit cards, providing financial reports with variance data to the grantee's Board of Directors, documenting position descriptions, and developing and documenting policies for managing grantee vehicles.

Credit Card Purchase Receipts

The grantee has nine different credit cards issued by different banks for various uses, and for the most part charge receipts were attached to the bills. However, one credit card did not have purchase receipts attached to the monthly statements and another credit card was missing two charge receipts. The total for the two credit cards with missing charge receipts was $1,361. The charges did have hand written descriptions which appear to justify the expenditures, but the notations were brief and did not fully clarify the purpose or nature of the purchases. Without the original receipt attached, there is no assurance that the hand written annotation is accurate.

The grantee's accounting manual requires that managing attorneys forward credit card receipts with the statements prior to the accounting department paying the bill. The grantee has not always enforced the requirement that receipts be forwarded with the statements prior to payment processing.

Recommendation 8: The Executive Director should ensure that all documentation evidencing charges to credit cards are provided to the finance office prior to payment processing.

Grantee Response: Grantee management agreed with Recommendation 8 and agreed to strengthen procedures related to credit card documentation. The full text of management's comments is attached to the report as an Appendix.

Evaluation of Grantee Response: The grantee's actions planned are responsive to Recommendation 8. The recommendation will remain open until all management actions are completed and the OIG is notified in writing of such.

Variance Data in Financial Reports to the Board of Directors

Grantee management typically does not provide variance data with its financial reports to its Board of Directors. LSC's Accounting Guide states that monthly management reports are to be provided to the finance committee, and that total actual income and expenses be compared to what was budgeted. The face of the report should also identify over and under variances. The grantee's policy, as stated in its accounting manual, requires that grant reports to the Board include variances but only at the end of a grant period.

The Assistant Director stated that variance information is generally not provided because the full Board and Finance Committee focus most of their attention to salaries and fringe benefits, where variances are discussed in detail. However, the Assistant Director and the Controller both stated that variance information was available and could be provided.

Budget variance information helps management and those charged with governance to direct their attention to major variances from the planned expenditures. Explanations can then be given and assessed and action taken to ensure that the variance does not adversely impact the availability of funds and the overall financial well-being of the organization. In addition, the more timely the variance is made known the sooner appropriate corrective action can be taken.

Recommendation 9: The Executive Director should revise the grantee's management reporting policy and procedures to include variance information as part of the monthly financial data provided to the Board of Directors and its Finance Committee.

Grantee Response: Grantee management agreed with Recommendation 9 and agreed to revise its variance reporting procedures to the Board. Grantee management indicated that they were not convinced of the utility of the reports or that the reports were absolutely required by the LSC Accounting Manual [Guide]. The full text of management's comments is attached to the report as an Appendix.

Evaluation of Grantee Response: The grantee's actions planned are responsive to Recommendation 9. The recommendation will remain open until all management actions are completed and the OIG is notified in writing of such. The OIG disagrees, however, with the grantee's comment on the utility of variance data to the Board of Directors. Budget and variance data are part of an effective internal control process. Variance data highlights and allows the Board to easily identify deviations from what was planned, and to raise questions about the nature and potential effect of significant deviations. Without such critical information, the Board's ability to properly conduct its

fiduciary and stewardship obligations, and management oversight responsibilities could be impeded. Since management agrees that the data is readily available, there is no reasonable basis to withhold it.

Position Descriptions

The grantee's Accounting Manual describes the responsibilities of the Executive Director, the Assistant Director, and the Controller, but the focus of those responsibilities is on finance and accounting. The responsibilities described for the Controller appear to be a broad-brush description and would provide a good basis for a detailed position description. However, the descriptions in the accounting manual for the Executive Director and Assistant Director do not capture all of their duties and responsibilities, which are broader than just finance and accounting. The manual also does not describe the duties and responsibilities of the grantee's other administrative staff.

The Executive Director believed the grantee's attorneys had a position description but not the administrative staff, including him. The Controller stated that she did not have a position description, and the Assistant Director believed he may have had one when he was hired but could not locate it.

Paragraph 3-4 of LSC's Fundamental Criteria on Internal Control Structure states that

> *The duties and responsibilities of all recipient personnel must be detailed in written job descriptions. Job descriptions for accounting personnel must specify, at a minimum, those individuals who, for example, approve invoices for payment, prepare grant and contract reports, maintain accounting records, prepare management reports.*

Position descriptions are an important internal control where specific duties, reporting relationships and constraints can be clearly delineated. Position descriptions help provide a basis for hiring, evaluating and promoting competent individuals, and providing them with the resources necessary to discharge their assigned responsibilities.

Recommendation 10: The Executive Director should ensure that all employees have detailed, documented position descriptions.

Grantee Response: Grantee management agreed with Recommendation 10 and has stated that job descriptions for all administrative and financial employees are being developed. The full text of management's comments is attached to the report as an Appendix.

Evaluation of Grantee Response: The grantee's actions planned are responsive to Recommendation 10. The recommendation will remain open until all management actions are completed and the OIG is notified in writing of such.

Grantee's Owned and Leased Vehicles

The grantee did not have policies and procedures to manage the use of its owned and leased vehicles, and the controls over three vehicles in Raleigh were weak. Our analysis of the odometer and vehicle log for one vehicle controlled by the Administrative Unit noted that the odometer registered about 2,000 miles more than the log. Periodic reconciliations were not performed to verify that miles traveled were reasonable and accurately recorded. We also were advised and later noted that the gas credit card is left in the car at all times. After being apprised of our findings, the grantee created a new form to document requests for vehicles that provides a more complete trail regarding vehicle use. The grantee also began storing the gas credit card in the Administrative Office with the vehicle's keys so they would be checked out together. We were also advised that they would more closely monitor the log with the odometer.

While the grantee made control changes with regard to the one vehicle, the grantee has several other vehicles that may be subject to the same lack of oversight. We did not review the log and safekeeping of the gas credit card for the two vehicles controlled by the Raleigh branch office, but we did note that they used the unrevised log and kept the gas credit cards in the vehicles. Further, of the three vehicles discussed above, none are parked in a secure facility that might mitigate theft or destruction.

LSC's Accounting Guide states that grantees are required to establish and maintain internal control procedures, which in part are designed to safeguard assets against unauthorized use or damage.

Recommendation 11: The Executive Director should formulate and formalize a policy and procedures for operating and managing the use of grantee vehicles and gas credit cards.

Grantee Response: Grantee management agreed with Recommendation 11 and stated that new procedures have been implemented to track the use of vehicles and gas cards. The full text of management's comments is attached to the report as an Appendix.

Evaluation of Grantee Response: The grantee's actions taken are responsive to Recommendation 11. Since procedures to track the use of vehicles and gas cards have been implemented, the OIG considers Recommendation 11 as closed.

POLICIES AND PROCEDURES

As a condition of the grant, grantees are required to adopt accounting policies and procedures that meet the requirements contained in LSC's Accounting Guide. The grantee must modify those policies and procedures as necessary when the Accounting Guide is amended or a new Accounting Guide is issued.

In order to meet the above grant condition, the grantee needs to formulate, formalize or revise the following policies and procedures:

- Cost Allocation Procedures
- Reimbursing Employees for Personal Mobile Communication Plans
- Identifying Participants in and Purposes of Business Meetings
- Handling Source Documents after Scanning into Paper Save
- Recognizing Actual versus Documented Procedures

In some instances, such as allocating costs to various funding sources, the grantee appeared to use reasonable procedures, but they were not documented. Other procedures, such as handling source documents after scanning, were weak or non-existent.

According to the Executive Director, the primary reason policies and procedures have not been documented was that the grantee's management team has been more focused on trying to ensure that the grantee is operating well since the major reorganization and mergers that have occurred since 2002. The Controller also noted that due to the reorganization, the administrative staff was significantly reduced and has been focused on carrying out the accounting responsibilities as timely and accurately as possible under the circumstances.

Without formal documented policies and procedures, there is no assurance that staff will understand their responsibilities and consistently implement the processes. Formal written policies and procedures are vital to a strong control structure by ensuring that the established controls are communicated to all staff and that appropriate approvals and authorizations are obtained. Further, documented procedures would aid in training and guiding staff when substituting for another staff member or assuming responsibility for the various processes.

Cost Allocation Procedures

The grantee did not document its cost allocation procedures, and does not perform year-end comparisons of each grant to determine (a) whether actual time charges have exceeded available grant funds, and (b) whether those excess charges are allowable as charges to LSC. LSC's Fundamental Criteria requires that the allocation formula be adequately documented in writing with sufficient detail for the auditor, LSC, OIG, GAO and others, to easily understand, follow, and test the formula.

Reimbursement for Personal Mobile Communication Plans

The grantee reimburses some of its attorneys and managers for their personal mobile communication plans. The reimbursements range from full to partial, and if partial only for business-related uses. The grantee does not have a documented policy for determining which employees are eligible to participate and what constitutes a business-related use. Implied or informal reimbursement procedures for mobile devices can potentially lead to inconsistent accounting treatment of mobile device expenses, and confusion and resentment among employees as to what they or others may be entitled to.

Identifying Business Meeting Purposes and Participants

The grantee paid for the meals of numerous attendees to nine meetings that cost $3,360.53. The payment requests for two of the meals that cost $569.03 did not identify the business purpose related to the meals or identify the attendees. The other seven payment requests did not clearly state the business purpose of the meetings and identify the attendees. For instance, one breakfast that cost $1,175 was identified simply as "MLK Orientation" with food and soft beverages provided for 50 unnamed participants. The grantee has no policy that payment requests for such events describe the function's business nature and identify the participants. This information is necessary to justify the reimbursement as an allowable business expense, chargeable to LSC funds. LSC's Fundamental Criteria requires grantees to retain documentation supporting the reason for each disbursement.

Because grantee management has agreed to implement changes, the OIG is only questioning as unallowable costs within the meaning of 45 CFR §§ 1630.2 and 1630.5, the $569.03 charged to LSC funds for the two purchase requests that did not include a description of the underlying business purpose, and will refer these costs to LSC management for review and action.

Handling Source Documents After Scanning Into Paper Save

The grantee scans all source documents into Paper Save, a module in the accounting software "Financial Edge," which enables easier transmission and reviewing of source documents. The grantee then destroys all source documents except leases and contracts. The grantee did not have a written policy on what to do with source documents after they were scanned into Paper Save. Without a written policy to guide employees on which documents needed to be preserved versus those that could be destroyed, significant problems could arise with the destruction of critical documents. In addition, the grantee needs to be certain before destroying any document that the data scanned is complete and legible.

Updating the Accounting Manual

The grantee has implemented procedures for two activities, one activity which is not included in the accounting manual and one activity where the actual procedures differ from what is documented in the accounting manual. The procedures implemented for these two activities do not appear to lessen control over the areas. The procedure that is not included in the accounting manual requires the Executive Director or the Assistant Director to pre-approve all training and training related travel. The activity where the actual procedure differs from the documented procedure pertains to approving overtime and compensatory time. The procedure used allows managing attorneys to approve overtime and compensatory time, while the accounting manual invests this responsibility with the Executive Director.

Recommendations

The Executive Director should ensure that:

Recommendation 12: All policies and procedures are fully documented and that documented procedures and actual procedures agree.

Recommendation 13: In addition to documenting the cost allocation, year-end comparisons for individual grants are conducted to determine (a) whether actual charges have exceeded funded charges, and, (b) whether those unfunded charges are allowable as charges to LSC.

Recommendation 14: The policy and procedures clearly ensure that Paper Save completely and legibly replicates the source document prior to disposing of the source document.

Grantee Response: Grantee management agreed with Recommendations 12 and 14. The full text of management's comments is attached to the report as an Appendix. Management stated procedures will be updated in its accounting and policy manuals and stated that the documented and actual procedures will be in agreement. However, grantee management disagreed with the OIG's questioning of $3,360.53 spent on meals provided at meetings because the grantee believed the meetings were for legitimate business purposes.

Grantee management disagreed with Recommendation 13. The grantee stated that it believes the year-end grant comparisons are conducted and "...that management does not permit the unreviewed allocation of operational expenses to LSC funds."

Evaluation of Grantee Response: The grantee's actions planned are responsive to Recommendations 12 and 14. The recommendation will remain open until all management actions are completed and the OIG is notified in writing of such.

Based on the information provided and further review of the invoices, we reduced the questioned cost from $3,360.53 to $569.03 in meals. Seven of the nine invoices identified in the finding contained an extremely brief description of the meeting that could be interpreted as a business purpose. Since grantee management has agreed to improve the procedures to more fully document the business purpose of meetings and the attendees, the OIG is only questioning two invoices that did not provide any description of the business purpose of the meeting where meals were provided.

Grantee management's actions are not responsive to Recommendation 13. The OIG disagrees that the finance office conducts year-end grant cost analyses and does not need to implement the recommendation. Based on our discussions with the finance staff and our review of the grantee's allocation methodology, we believe the grantee does not conduct year-end assessments of costs to ensure that unallowable charges are not allocated to LSC. The grantee periodically allocates costs against various non-LSC grants as long as there are funds available. Once the non-LSC funds are exhausted the grantee does not evaluate subsequent charges for allowability as LSC charges. The OIG considers the grantee's comments to be nonresponsive.

Recommendations 12 and 14 will remain open until all management actions are completed and the OIG is notified in writing of such. Recommendation 13 will remain open and be forwarded to LSC management for resolution.

COMPLIANCE WITH 45 CFR PART 1612

The grantee's Legislative Activity report to LSC for January 1 through June 30, 2010, did not report all legislative activity that occurred during that period, and if LSC funds were charged for that activity in violation of the regulation. LSC Regulation 45 CFR Part 1612, Restrictions on Lobbying and Certain Other Activities, requires grantees to use non-LSC funds for permissible Part 1612 activities and to report those activities to LSC on a semi-annual basis.

In addition to the reporting error, eight grantee staff incorrectly charged time as § 1612.6 activity, but this activity was not reported to LSC. The discrepancies on the Part 1612 report and on the employee timesheets included:

- Time charged as § 1612.6 activity by two of the ten attorneys was determined to be § 1612.6 activity, but only one was reported to LSC. The other eight time charges were incorrectly entered as § 1612.6 activity.

- The § 1612.6 activity that was not reported to LSC was also charged to LSC funds in violation of the regulation.

After the audit team discussed the discrepancies on the report and timesheets with the Executive Director, he identified time charges related to § 1612.6 activity that had been incorrectly charged to LSC funds in CY 2010 and notified the audit team. The Executive

Director subsequently ordered corrections to reverse the incorrect charges to LSC funds and to charge other available non-LSC funds. In response to our finding, the Executive Director sent an email on February 9, 2011, to all staff announcing a new procedure to better ensure proper time charges and reporting of § 1612.6 activity. The email stated that a training session also would be held. The procedure proposed in the email appears to address the deficiencies noted above and allows the grantee to properly record § 1612.6 time, charge non-LSC funds, and report accurately to LSC. The Executive Director also revised and resubmitted to LSC the Part 1612 report for the period January 1 through June 30, 2010.

Grantee management did not properly oversee the reporting process to ensure that all permissible activity was reported and that LSC funds were not used for those activities. Grantee management also did not provide adequate training to its staff to ensure they understood and complied with LSC's restrictions on lobbying and legislative activity.

Recommendation 15: The Executive Director should provide periodic training to staff and formalize the revised policy and procedures as described in the Executive Director's email to all staff.

Grantee Response: Grantee management agreed with Recommendation 15 and stated that proper corrections and reporting procedures are in place to avoid errors in the future. The full text of management's comments is attached to the report as an Appendix.

Evaluation of Grantee Response: The grantee's actions taken are responsive to Recommendation 15. Since corrections have been made and reporting procedures are now in place, the OIG considers Recommendation 15 as closed.

APPENDIX

Legal Aid of North Carolina, Inc.

Administrative Office

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George R. Hausen, Jr., Esq.
Executive Director

www.legalaidnc.org

August 15, 2011

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

Re: Recipient No. 634032, Internal Controls Audit

Dear Mr. Merryman:

Thank you for granting an extension of time to submit our response to the OIG Draft "Report on Selected Internal Controls, June 2011." I have attached our response for your review.

We are proud of the fact that our current practices received a generally favorable audit. Credit for this is due entirely to the experienced and dedicated staff of finance professionals in our organization. We take issue with some of the specific findings in the report, but we found the overall report to be thorough and helpful. We are committed to making any changes that will improve and strengthen our financial controls.

As I state in our response, we found Mr. Young and his team to be very professional, courteous, and sensitive to our time. They were a credit to your office and to LSC.

Please let me know if I can provide any additional information or context to our response. I understand that this is a process and I would like to be as helpful as possible. I may be reached directly at (919) 856-2130 or at georgeh@legalaidnc.org.

Thank you.

Sincerely,

George R. Hausen, Jr.
Executive Director

LEGAL AID NC

LSC

LEGAL AID OF NORTH CAROLINA
RNO 634032

RESPONSE TO THE OIG JUNE 2011
DRAFT REPORT ON SELECTED INTERNAL CONTROLS

Introduction

The following is the LANC management response to the OIG'S "DRAFT REPORT ON SELECTED INTERNAL CONTROLS", dated June 2011. The LANC management team generally agrees with all the basic recommendations in the report and in particular with those recommendations that involve bolstering our written policies to strengthen our internal controls. We have recognized this need as last year we updated our internal accounting manual. In response to this draft, we already have begun to implement some of the changes.

We question the overall tone of the report, which we believe could lead a reader (and potential funding sources) to the conclusion that our controls and procedures are too loose or inadequate to the task. We firmly believe that our controls and procedures far exceed mere "adequate" and that the report should so reflect. We have increased our annual revenues with new grant funds by approximately $1M per year on average since consolidation in 2002. A less than very well run and managed organization would have difficulty achieving that level of success. Our management and control of our financial assets has streamlined, centralized, and made substantially more efficient a formerly diffuse and duplicative system. Our current internal financial controls, lacking only somewhat in written policy foundation, nonetheless have proven effective at reducing waste, preventing abuse, and providing accountability in a $20M statewide organization, one of the largest organizations funded by LSC. Our controls and policies, most of which have all expense decisions running through the Administrative Office, are well-understood by all staff and consistently applied throughout the statewide system.

We take issue as well with the report's questioning of certain expenses. The report should make clear that none of the questioned expenses were fraudulent or that they were not legitimate business expenses. The OIG report should make clear that in questioning whether a given expense followed the LSC approval process or was appropriate as an LSC allocation is not quite the same as categorizing an expense as non-legitimate. Moreover, we believe that further clarification, which perhaps suffered from the absence during the site visit of our Finance Deputy, on these expenses will remove all questions.

Purchasing and Contracting Procedures

LANC believes that it has very good controls for purchasing and contracting in place, but it agrees that it could strengthen and improve these as well as formalizing the improvements. Therefore, LANC agrees with Recommendations 1 through 5 and it will implement policies that improve separation of ordering and receiving duties; institutes a three-way matching system; formalizes contracting policies; retains bid analyses; and formulates policy regarding cost benefit analyses over a minimum amount. LANC management and its Board will undertake implementation of these five recommendations.

LANC already has implemented an electronic data interchange purchase order system for improved documentation (PO copy attached). A PO now will be required for any individual purchase, including tech purchase, exceeding $500. All POs will be reviewed for cost-benefit and approved by the Assistant Director of Finance. Any capitalized item over $5000 will require review and approval by the Executive Director. After the vendor is selected, the PO is emailed to the vendor, the local office or appropriate project manager, and filed in the Finance Department. Before payment is made, the accounts payable department will match the PO, the invoice, and the receiving reports from the field or project manager.

Expenditures Not Properly Approved

We agree with Recommendation 6 regarding adherence to 45 CFR § 1630.5 as our prior understanding included seeking approval only when the LSC portion of a purchase exceeded $10,000. We disagree however with the finding that three purchases totaling $29,997 were unallowable within the meaning of 45 CFR §§ 1630.2 and 1630.5. In our view, these were four, separate items, which comprised wiring and cabling and separate phone systems in two different offices. To the extent that phone systems are separate and severable costs from the wiring and cabling involved in installation, the total costs are not "individual items" under the regulation. We therefore believe the recorded expenses were properly documented and recorded as allowable, and we request that the OIG revisit this issue with LANC management for clarification.

We also believe the entire bid and approval process for our roof repair was handled properly. Bids were solicited for commercial roof replacement from three companies in 2005. The project was intended to be funded entirely with non-LSC monies. The funds were reserved and accumulated and the project was started and completed in 2009--under the previous bids and terms and paid for with $49,000 in general funds at the completion of the work. Later in the year, well after the project was completed, LSC funds of $9,999 were allocated to the roofing job in our effort to save general funds. (Our understanding at the time was that only when the LSC portion exceeded $10k was approval necessary.) Perhaps we were mistaken in our understanding of the regulation, but there was no attempt to circumvent the approval process, and the expense itself was necessary and legitimate.

We agree with Recommendation 7 regarding the use of LSC funds for business purposes. LANC will cease using LSC funds for non-business functions or purposes. Although $6000 seems like a large sum, the OIG must remember that LANC is the consolidation of 25 offices, many of which once were independently-funded LSC programs. Considering that, in addition to our staff and statewide board, each office maintains a Local Advisory Council and a panel of pro bono volunteers, an average of less than $300 a year for each office is not a large sum for recognition of special events in the lives of our staff and volunteers. Moreover, this courtesy and its allocation appears to a longstanding practice, which apparently was unremarkable and perhaps considered *de minimis* by LSC when individual offices were reviewed. Gestures of goodwill are essential and a legitimate expense for an organization that relies so heavily on volunteers, but we will re-allocate such expenses in the future.

We believe the so-called "holiday party" involved lunch for an office's staff meeting and work plan retreat and was, thus, a legitimate expense.

Control Improvements

We agree with Recommendations 8 through 11. We will strengthen procedures related to credit card documentation; we will revise our variance reporting procedures to the Board. We already have begun the process of obtaining job descriptions for all administrative and finance employees. We have begun new procedures regarding tracking the use of vehicles and gas cards, which in any event have strict usage limitations built in on the purchase approval side.

Our chair and the members of the Finance Committee are all very astute and engaged. Most members are selected only after a few years of service. In the past, management has provided detailed budget variance reports to the LANC Board. The Board and Finance Committee recognized that with over 100 funding sources and the volume of new grants and funds, constantly changing, with different fiscal calendars in a $20M budget, made absorbing and understanding these details very difficult and almost meaningless. Management has always provided complete and detailed revenue and expense information to our Finance Committee and to the Board to give them a thorough picture of our budget situation. As the report notes, we can easily provide such variance information; we're simply not convinced of the utility or that such reports, which can be useful in some circumstances, are absolutely required by the LSC Accounting Manual.

Policies and Procedures

We generally agree that we need to do a better job of formalizing many of our internal control policies. That is not to say, however, that our procedures are informal and inconsistent. We disagree therefore that business meetings, such as the one for "MLK

Orientation" are unallowable. The procedure always has required that the Executive Director approve in advance all such projects and programs that might involve such expense. The "MLK Orientation", for example, is nothing more than our lunch expense for our annual summer intern orientation for the seventy or more law students who come to us each summer. We are a statewide--at LSC's behest--organization and training often requires staff to travel great distances and to stay overnight. Providing meals at the event significantly reduces per diem costs to the organization. All such programs and their related costs are estimated and approved by the Executive Director in advance and we believe our documentation supports the questioned expenses.

We agree with Recommendations 12 and 14. We will update and formalize our financial procedures in our accounting and policy manuals and we will ensure that documented and actual procedures are in sync.

We question Recommendation 13 as we believe that year-end grant comparisons are conducted by the finance and accounting staff and that management does not permit the unreviewed allocation of operational expenses to LSC funds.

Compliance with 45 CFR §§1612

Some of the timesheet errors were inadvertent, and the activity charged--and reversed--to LSC amounted to approximately $900 of time, most of which would have been covered by non-LSC funds in any event. We now have a process in place that more closely monitors 1612 time and checks this time against reported 1612 activity. A special allocation to non-LSC funds will be made for all 1612 time to ensure compliance. As noted in the OIG report, Recommendation 15 has been implemented, and we have the proper corrections in recording and reporting procedures in place to avoid discrepancies going forward.

Conclusion

We agree with most of the recommendations made in the Draft Report. We are very dedicated to improving our financial controls and we found the overall report helpful in that regard. We take issue with some of the findings that "questioned" expenses and we hope we can provide explanation and clarification in these few matters. We were pleased that we have no material problems with our controls, but--while firmly committed to improving-- we also believe our current controls are better than "adequate."

We are very proud of the fact that this management team has been directly responsible over the last nine years of consolidating 25 independently and disparately operated programs into one, cohesive and efficiently-operated statewide organization. This team, with no previous LSC program experience, has re-organized all the operational and the financial procedures, significantly reducing costs and waste, and saving millions of

dollars that allowed us to expand services by over 60% from previous levels. Noteworthy should be the fact that LANC is an entirely new organization and was built, and its procedures established, with no direct input or oversight from LSC until now. The draft report could well note the challenges and obstacles that obviously were overcome by our terrific staff in getting us to this juncture. We certainly would have appreciated this visit and report three years into the process.

We commend the onsite OIG auditors for their thoroughness and their professionalism. Dave Young and his team were at all time courteous, gracious, and sensitive to the other demands of staff time. Although we take issue with some findings, some of our quibble may be due to the fact that our Assistant Director could not be present, due to medical issues, to answer all the questions and to fully explain some of our financial procedures.

LEGAL AID NC

Legal Aid of North Carolina, Inc.

P.O. Box 26087
Raleigh, NC 27611
(919) 856-2131

P.O. NO. _____
DATE _____

VENDOR NAME _____
Street Address _____
City, ST, Zip Code _____
Phone _____

SHIP TO NAME _____
Street Address _____
City, ST, Zip Code _____
Phone _____

DATE REQUIRED		LOCAL CONTACT INFORMATION			
QTY	ITEM #	DESCRIPTION	NO. OF UNITS	UNIT PRICE	PRICE TOTAL
				SUBTOTAL	
				SALES TAX	
				TOTAL	

1. Please send one copy of your invoice with original Bill of Lading.

2. Enter this order in accordance with the prices, terms, and specifications listed above.

3. Please notifiy us immediately if you are unable to complete the order by Date specified.

4. Purchase Order Number must appear on all Invoices, Packages, etc.

5. Send all correspondence to:
Legal Aid of North Carolina, Inc.
Attn: Asst. Director - Finance/Administration
P.O. Box 26087
Raleigh, NC 27611
(919) 856-2131

_____
Authorized/ Received by *Date*

ORIGINAL - VENDOR
COPY - LOCAL OFFICE
COPY - ADMINISTRATIVE OFFICE

Legal Aid of North Carolina, Inc.

P.O. Box 26087, Raleigh, NC 27611
(919) 856-2131, (919) 856-2120 Fax

WORK ORDER

WORK ORDER REQUIRED FOR INDIVIDUAL JOBS MORE THAN $500

JOB INFORMATION

LOCATION NAME: _____
ADDRESS: _____
ESTIMATED START DATE: _____
ESTIMATED DURATION: _____

LANC AGENT

PHONE NUMBER: _____
FAX NUMBER: _____

CONTRACTOR INFORMATION

NAME: _____
ADDRESS: _____
PHONE NUMBER: _____
FAX NUMBER: _____

JOB SPECIFICATIONS: _____

PROPOSAL/AGREEMENT:

_____, propose hereby to furnish material and labor - complete in accordance with the above
(Contractors Name):
specifications for the sum of: $ _____ Dollars
with payments to be made as follows: _____

Any alteration or deviation from above specifications involving extra costs will be executed only upon written/verbal order, and will become an extra charge over and above the estimate. All agreements contingent upon strikes, accidents, or delays beyond our control.

_____
Contractors Signature and Date

Acceptance of Proposal

The above prices, specifications and conditions are satisfactory and are hereby accepted. You are authorized to do the work as specified. Any change orders or increase in job costs, must have LANC prior approval by designated LANC Contact listed above. Changes will be noted under work order specs and initialed by LANC contact.

_____
LANC Agent Signature and Date

_____
Contractor Signature and Date

Attachment B

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Administrative Office

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George R. Hausen, Jr., Esq.
Executive Director

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January 25, 2012

Via Email and Fed Ex
Lora M. Rath
Acting Director
Office of Compliance and Enforcement
Legal Services Corporation
3333 K Street, NW, Third Floor
Washington, DC 20007-3522

Re: Notice of Questioned Cost

Dear Ms. Rath:

I am writing in response to your letter dated January 12, 2012, and its attached Notice of Questioned Cost. As I am unaware that a response in a separate, captioned format is required, please accept our response, which is contained in similar format, in this letter:

INTRODUCTION

LANC has been in existence since mid-2002 as the product of a statewide consolidation of the then-extant LSC funded programs, which at one time numbered eighteen autonomous and individually funded programs located throughout the state. The administration of all these former independent programs and their finances are now centralized and conducted through the LANC Administrative Office in Raleigh. LSC had not audited our new program until the Office of Inspector General conducted an audit of the LANC internal financial controls last February, 2011. The OIG issued its report in September 2011. In its report, the OIG recommended fifteen fairly straightforward improvements in our policies and procedures. Although we took issue with some of the factual bases--our CFO could not be present for the audit due to major surgery--for the recommendations, LANC readily agreed to all of them as prudent improvements to our existing financial procedures. LANC recently conducted a conference call with the OIG to clarify the new policy recommendations.

In its exit interviews and conference calls with us, the OIG has commended our staff on its overall management and stewardship of our finances. For its audit, over two weeks, the OIG reviewed our financial records for FY2009 and FY2010. LANC raised and spent approximately $40,000,000.00 during those fiscal years. The OIG found no waste, fraud, or abuse in its audit, but did indicate to us that it would refer about $3,600, less than 0.009%, to LSC as "questioned" under the regulations. All our staff strive to be both productive and efficient stewards of our scarce resources. We believe the overall thrust of the OIG's report substantiates the excellent job done by our entire staff--without any assistance or significant oversight over a ten-year period from LSC--in designing and maintaining adequate financial controls over a new statewide program.

While we believe all the questioned costs were legitimate business expenses or due to small error, we are certain that all of the expenses were made in a good faith effort to support our program. Moreover, most of the recommended changes to policies and procedures that will strengthen our financial controls to prevent these questioned costs from arising again have been implemented, some as long ago as last February. We ask LSC to review and consider our explanation that follows and to then either determine these costs as allowable or determine that recovery is unnecessary.

STATEMENT OF FACTS

In Paragraph 2 of the SOF, we note as error the statement that LANC received an LSC grant in the amount of $12,283,849.00 in 2010. In 2010, LANC received approximately $10.4M as its grant from LSC.

Although both the OIG report and the SOF indicate that a total of $6,422 was spent on flowers in FY2009 and FY2010, both reports fail to indicate that at the time of the audit, LANC re-classified $3,951.59 of these expenses in 2010 from LSC to our general fund as our 2010 books were still open. (A Post Report documenting the reclassification at the time of the OIG audit, and given to the auditor at that time, is enclosed. In a recent conversation with the OIG, we were instructed to include the oversight in our response to OCE.)

Thus, the total questioned costs reportable to LSC should not have been $7,506.55, but rather, the total questioned costs should have been only $3,554.96 ($2,470.41 for flowers, donations of $110, and $227 for a holiday party; $178.52 for finance charges; and $569.03 for meals not completely documented.)

A. Non-Business Purposes: Flowers

We are reviewing the longstanding practice here in North Carolina of recognizing the deaths and special events in the lives of board members, supporters, volunteers from the private bar and our communities, and staff. New permanent policies will be promulgated, but as of January 1, 2011, we have changed our policy and practice to ensure that LSC funds are no longer used for any such purpose in the future.

Although we will adhere to the OIG's determination that LSC funds not be used for these purposes, our board members and upper management, many of whom have been leaders in legal services in their communities here for thirty years or more, are universal in their support of the practice as a prudent and legitimate business expense and one that is beneficial to our overall program mission because it helps in our efforts both to garner support in our local communities and to maintain morale in our offices. All of these leaders asked on what basis or experience the OIG arrived at its contrary determination of what should be "prudent" in our circumstances.

The OCE notice characterizes our response to the OIG as necessary to "maintaining a positive working environment." That characterization however is only partially correct as our response and the actual practice was more extensive than simply employee morale. The so-called "flowers" comprised floral arrangements for wakes and funerals of volunteers and supporters in our local communities and for recognition of similar events in the lives of our employees. The size of the annual expense is not excessive when one considers that in addition to our 300 staff employees, we maintain a nearly 30-member statewide board, the attorneys of which pay their own way to board meetings, as well as LANC Local Advisory Councils, with members drawn from the local private bar, community leaders, and our clients in nearly all of our 25 offices. Furthermore, we have numerous ad hoc committees from the bar

that expend countless hours to coordinate our annual statewide fundraising campaign and other special events. The North Carolina Bar Association, our statewide bar, has sections and committees that devote much time and effort to our support and to our pro bono events. This involvement directly supports our mission and the very purpose of the LSC grant.

Since our consolidation by LSC as a statewide program in 2002, we have made a conscious and concerted effort to cultivate greater support from the private bar. Most of the money involved in this questioned cost went to publicly recognize and support special circumstances in the lives of more than one hundred of our volunteers and supporters from these bar groups and community organizations both in and outside of LANC all over North Carolina. These funds were used to demonstrate our gratitude to volunteers who devote significant time and resources to our success. The "expense" came to about $20 per month for each of our offices.

Our program revenues have grown substantially since our consolidation as we have added about $1M of new funding in each year of our existence. Our Access to Justice Campaign raised over $500,000 in new money last year, and we're just getting started. Because we have focused on new funding, we also serve, consequently, about 60% more clients than we did back in 2002. To increase our financial and other support, we have made a concerted effort to cultivate support from the private bar and expand our presence in the communities we serve. These advances and increases in revenue and other support did not come without attendant costs. Hiring a development director, expanding pro bono recognition events, and generally being more "present" in the communities we serve all entail costs. Everything from travel, event meals, plaques, program resources to write memorials and press packets are all costs not directly related to providing legal services. All these activities are perhaps the very basis for the LSC requirement that we spend 12.5% of our grant on PAI activities. These costs, then, are legitimate business expenses because they pay a dividend to the program and allow us to multiply and extend our LSC funding. We serve more clients today because, in part, we took on these indirect costs, some of which are now questioned. The "flowers", in our view, are simply similar indirect costs and are indistinguishable from other recognition costs that keep us present and relevant in our local communities.

Recognition expenses help us garner support. They humanize an otherwise large and impersonal statewide program and keep us locally-owned and locally relevant. We state in our response to the OIG, "Gestures of goodwill are essential and a legitimate expense for an organization that relies so heavily on volunteers..." We are so very dependent on volunteers, for pro bono support, for financial support, and for political support that we need to make every effort, however small the gesture, to remind our supporters that we are not too big or too distant to remember them and the important events in their lives.

The LSC regulations require asking whether the recipient acted with prudence under the circumstances, considering its responsibilities to its clients and employees, and the public at large. See 45 C.F.R. § 1630.3(b)(3). We are here in North Carolina trying everyday to expand our resources in order to serve more clients. We have deep experience with the bar groups and in the communities here and we have a sound sense of what costs are needed to expand our business, which is serving our clients. We have an enviable track record of success in doing just that. Because of our experience raising funds and engendering local community support to serve clients here in North Carolina, we see these questioned costs not as wasteful and illegitimate, but as prudent, reasonable, and necessary costs of doing business as a volunteer-based non-profit. These costs have helped us garner support and raise new funds in a multiplier effect that has increased our ability to provide services. They help us explain the 60% increase in clients served throughout our State and thus directly benefit our work under the LSC grant.

When so many long-experienced legal services managers and an equal number of outstanding attorney board members--with sound business backgrounds, devoted to our mission and fully-cognizant of their fiscal responsibilities to our clients and to the public at large--find the practice beneficial, it is difficult to understand how the prudence of the practice can be questioned. If the definition of prudence is to have any real meaning, the situation cannot be viewed in a vacuum: local circumstances must be taken into account. We do not suggest that the practice is prudent everywhere. The practice is prudent here in North Carolina because it is longstanding and is seen as one part of a larger recognition strategy. Indeed, prudence dictates that we not suddenly end the practice even though we will no longer employ LSC funds to maintain it.

We ask that the OCE review our local circumstances and determine that these costs, in our situation, were legitimate and prudent business expenses and were therefore reasonable and allowable costs in conformity with LSC regulations. In the alternative, because these costs ($2,470.41 and $110) were made in a good faith belief that they were legitimate business expenses made in support of our program and in furtherance of the LSC grant, and in light of the fact that our LSC funding for the current fiscal year is being cut by $1.5M, we request that these questioned costs not be recovered by LSC.

The $227 charge for a share of a holiday party was charged in error to LSC funds. It was an expense in FY2009 and, as such, we were unable to re-classify it when it was brought to our attention at the time of the audit. The holiday party occurred in a field office and was combined with a staff work plan meeting. The event and subsequent expense were approved in advance by the Executive Director.

B. Credit Card Finance Charges

As a result of our consolidation, the administration of most of our finances were centralized in our Administrative Office. The completion of the centralization process could not and did not happen over night. Due to an administrative snafu, since corrected, we ended up paying late fees and finance charges (a total of $178.52) on a credit card used by one of our statewide projects. The error was compounded when we charged these to LSC funds.

We agree with OCE that these charges should not have occurred and, moreover, that they should not have been charged to LSC. Our billing and invoice procedures now employ scanning devices and email. The problem that resulted in these charges have long since been corrected and no longer are no longer issues.

C. Identifying Business Meeting Purposes

The two charges totaling $569.03 were legitimate lunch expenses for meetings that were scheduled for separate and large groups that traveled to Raleigh (thus saving the program per diem costs). In our response to the OIG report, we somehow missed delineating these and providing the documentation which we had the entire time in our files. The invoices are included here.

The first expense ($323.25) involved a meeting of a committee of approximately thirty clients from our statewide Clients Council, our client advisory board. The committee met on December 8, 2010, to discuss issues relevant to the Clients Council in preparation for a meeting of the LANC Board the following day. The meeting and food cost were legitimate expenses, properly approved in advance.

The second expense ($245.78) was for a lunch provided to staff from around the state gathered in Raleigh for an all-day meeting to discuss the services we would provide and the administrative procedures connected to a major statewide grant from the USDA. Approximately twenty-seven local managers and staff advocates were in attendance on May 12, 2010. This meeting and food cost also were legitimate expenses, properly approved in advance.

Because these meal expenses, totaling $569.03, were legitimate and documented, we request that LSC not recover these funds.

CONCLUSION

In accordance with 45 C.F.R. § 1630.7(b), LANC has provided evidence and supporting argument sufficient to demonstrate that all the alleged questioned costs, save for the $227 holiday charge and the $178.52 in finance charges, were well-documented and legitimate business expenses, allowable under the LSC regulations.

In sum, we believe that $7,101.03 of the questioned costs were allowable: It is clear that $3,951.59 should not have been included in the original total of questioned costs, as this amount was reclassified during the OIG audit and, thus, did not involve LSC funds. The amounts questioned for flowers, totaling $2,580.41 ($2,470.41 and $110), were from FY2009 and could not be reclassified, but we advert that these costs were legitimate. Food costs, totaling $569.03 ($323.25 and $245.78), were for legitimate and documented meeting expenses.

Finally, with the possible exception of the specified $405.52 ($227 and $178.52), we request that LSC find all the other questioned costs allowable or, in the alternative, determine that recovery of any amount is not warranted for equitable reasons because LANC already has implemented necessary policy changes, the costs were made in a good faith effort to support the LSC grant, and because recovery would exacerbate the other substantial funding cuts LANC is facing.

Please contact me at 919.856.2130 or at georgeh@legalaidnc.org if you require additional information regarding our response. Thank you.

Sincerely,

George R. Hausen, Jr.
Executive Director

Enclosures

cc: Celeste Harris, Chair of the LANC Board,
Kyle Woosley, Chair of the LANC Audit Committee,
Tom Berkau, Chair of the LANC Finance Committee.

ATTACHMENTS:

Post Report documenting the reclassification out of LSC funds of FY2010 floral charges totaling $3,951.59. Reclassification dated February 10, 2011.

Invoices totaling $569.03 and documentation for meal expenses for scheduled meetings of the statewide Clients Council, $323.25 on 12/09/2010, and an all-day meeting of managers and field staff to discuss our USDA grant, $245.78 on 5/12/2010.

Legal Aid of North Carolina

Post Report

Batch 10377 - General Ledger - 2/10/2011

Batch number 10377
Description Reclass 2010 Floral Charges
Batch posted successfully

Transactions 20
Balance $ 0.00
Status: Posted
Date posted 2/10/2011
Posted by CarolynW
Created on 2/10/2011
Created by CarolynW
Last changed on 2/10/2011
Notes

Trans.	Account Number	Journal	Reference	Date	Debit Amount	Credit Amount	Project ID
1 (R)	01-6900-01	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$2103.10	100
2 (R)	01-6900-01	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$2103.10		700
3 (R)	01-6900-02	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$64.60	100
4 (R)	01-6900-02	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$64.60		711
5 (R)	01-6900-03	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$274.95	100
6 (R)	01-6900-03	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$274.95		711
7 (R)	01-6900-04	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$267.61	100
8 (R)	01-6900-04	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$267.61		711
9 (R)	01-6900-05	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$147.00	100
10 (R)	01-6900-05	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$147.00		711
11 (R)	01-6900-12	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$72.95	100
12 (R)	01-6900-12	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$72.95		711
13 (R)	01-6900-14	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$410.21	100
14 (R)	01-6900-14	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$410.21		711
15 (R)	01-6900-15	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$250.00	100
16 (R)	01-6900-15	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$250.00		711
17 (R)	01-6900-15	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$68.00	100
18 (R)	01-6900-15	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$68.00		700
19 (R)	01-6900-23	Journal Entry	Reclass 2010 Floral Charges	12/31/2010		$293.17	100
20 (R)	01-6900-23	Journal Entry	Reclass 2010 Floral Charges	12/31/2010	$293.17		711
				Total Regular Transactions:	*$3951.59*	*$3951.59*	

Balancing Information

Fund	Fiscal Year	Period	Total Debits	Total Credits	Message
01	2010	12	$3951.59	$3951.59	

Journal	Fiscal Year	Period	Total Debits	Total Credits	Message
Journal Entry	2010	12	$3951.59	$3951.59	

Class - Fund	Fiscal Year	Period	Total Debits	Total Credits	Message
Unrestricted Net Assets - 01	2010	12	$3951.59	$3951.59	

Mrs. Pumpkin's Muffins, Inc.

invoice

3645-B Reynolda Road
Winston-Salem, NC 27106
Phone: 336.924.9797 Fax: 336.924.9599
Email: accounting@mrspumpkins.com
Visit us at: www.mrspumpkins.com

To:
Legal Aid of NC
102 W 3rd street
suite 460
Mary Hedgepeth 725 9162

Invoice No.	41125
Date	12/8/2010
Terms	Net 15
Due Date	12/23/2010

Delivery Date: 12/8/2010 Delivery Time: 1200

Order & Delivery Notes

Drug Rep Name (If any):

Item	Description	Qty	Rate	Amount
xBox Lunch S...	Boxed Lunch Sandwich with deli salad, fruit, dessert, fork & napkin	21	8.20	172.20T
xxBox Lunch ...	Boxed Lunch Salad with muffin, cut fruit, dessert, fork & napkin	9	8.20	73.80T
Sweet Tea	Sweetened Tea (sold by the person)	36	0.95	34.20T
Unsweet Tea	Unsweetened Tea (sold by the person)	4	0.95	3.80T
ice	bag of ice	2	3.00	6.00T
A-Delivery	Delivery Service Charge	1	10.00	10.00T
	NC Sales Tax 7.75% Forsyth		7.75%	23.25

Return to Office _____
Funding Source _____
Approval _____

Admin Office Use Only
Distribution 5600 60 109 300.00
1310 04 23.25

Total	$323.25
Payments	$0.00
Balance Due	$323.25

Thank you for your order!

E-mail	Web Site
accounting@mrspumpkins.com	www.mrspumpkins.com

Invoice

The Square Rabbit
19 E. Martin St.
Raleigh, NC 27601

5/12/2010

DATE	INVOICE #
5/12/2010	33041

The Square Rabbit
919-829-9223

Two Hundred Forty-five and 78/100**********

BILL TO
The Square Rabbit Legal Aid of NC PO Box 1731 Raleigh NC 27602

DELIVER TO
224 South Dawson St. Paula Spence 856-2564 ext2136

P.O. NO.	TERMS	EVENT DATE	ARRIVE TIME	TELEPHONE
P Spence	Net 7	5/12/2010	11:15 5/12/2010	856-2564 ext2136

DESCRIPTION	QUANTITY	RATE	AMOUNT
The Square Rabbit Box lunch	17	7.50	$ 245.78 127.50T
Croissant box lunch	10	7.95	79.50T
01-6900-01-100 iced tea/gallon	1.5	6.00	9.00T
delivery charge	1	10.00	10.00T
7.75% State & 1% County Sales Tax		8.75%	19.78

OK
AN

The Square Rabbit

01-6900-01-100

5/12/2010
Total $245.78

$ 245.78

Received by:_____

PLEASE PAY FROM THIS INVOICE. Past due balances are subject to a 1.5% per month service charge.

May 12, 2010

Wednesday

May 2010

S	M	T	W	T	F	S
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9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

June 2010

S	M	T	W	T	F	S
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20	21	22	23	24	25	26
27	28	29	30			

CHILD CARE

7 am

8 00

9 00

10 00 Ida Baker (AO)

11 00 USDA-RCDI Grant Meeting (224 Large Conference Room)

12 pm

1 00

2 00

3 00

4 00

5 00

6 00

TaskPad

☑ TaskPad

Notes