



Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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March 9, 2017

Mr. Felipe Chavana
Executive Director
Essex-Newark Legal Servicesg
5 Commerce Street, 2nd Floor
Newark, NJ 07102

Dear Mr. Chavana:

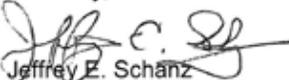
Enclosed is the Office of Inspector General's (OIG) final report for our audit of Selected Internal Controls at Essex-Newark Legal Services. Your comments are included in the final report as Appendix II.

The OIG considers your proposed actions to address Recommendations 1, 2 and 3 as responsive. The actions planned by grantee management to update its Accounting Manual should correct the issues identified in the report.

However, recommendations 1, 2 and 3 will remain open until the grantee has provided the OIG an updated Accounting Manual and obtained the required Board of Directors' approval for the new policies and procedures.

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

Sincerely,


Jeffrey E. Schanz
Inspector General

Enclosure

cc: Legal Services Corporation
Jim Sandman, President

Lynn Jennings, Vice President
For Grants Management

Essex-Newark Legal Services
Charles I. Auffant, Esq.
Board Chairperson

Sent by E-mail to Board of Directors

Janine A. Beer, Esq.
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**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**FINAL REPORT ON SELECTED INTERNAL
CONTROLS**

ESSEX-NEWARK LEGAL SERVICES

RNO 331060

Report No. AU 17-02

March 2017

www.oig.lsc.gov

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INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Essex-Newark Legal Services (ENLS or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in Newark, NJ and at LSC headquarters in Washington, DC.

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

[T]he process put in place, managed and maintained by the recipient's board of directors and management, which is designed to provide reasonable assurance of achieving the following objectives:

1. safeguarding of assets against unauthorized use or disposition;
2. reliability of financial information and reporting; and
3. compliance with regulations and laws that have a direct and material effect on the program.

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

BACKGROUND

Essex-Newark Legal Services (ENLS) is a nonprofit corporation organized in 1971 for the purpose of providing assistance in non-criminal proceedings or matters to persons financially unable to afford legal assistance in Essex County, New Jersey. ENLS programs are involved in the creation of neighborhood facilities and cooperation with other legal organizations and programs as appropriate to provide legal representation to the indigent.

ENLS receives funding primarily from LSC and Legal Services of New Jersey. According to the audited financial statements for year ended 2015, LSC provided 15 percent of the grantee's funding, amounting to \$831,986. Additional funding is provided by the state of New Jersey and Essex County.

OBJECTIVE

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

AUDIT FINDINGS

To accomplish the audit objective, the OIG reviewed and tested internal controls related to cash disbursements, credit cards, cost allocation, contracting, fixed assets, derivative income, employee benefits, payroll, general ledger and financial controls and internal reporting and budgeting. The controls over all the above areas appeared to be adequate and in conformance with the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the LSC Accounting Guide except for the area of contracts.

CONTRACTS

Written Policies Need Strengthening

The OIG's review of the grantee's Accounting Manual for policies on contracts revealed that the written contracting policies do not include:

- The dollar threshold that triggers competitive bidding or the different types of contracts.
- Other competitive bidding requirements such as the minimum number of bids needed or the selection process for vendors.
- Sole-sourcing requirements such as preparing and maintaining written justifications for selecting a vendor without competition.

The LSC Accounting Guide, section 3-4.5 requires:

Establishment of an Accounting Manual: Each recipient must develop a written accounting manual that describes specific procedures followed by the recipient in complying with the *Fundamental Criteria*.

The Finance Director stated she was not aware that the policy issues noted above were required as part of the contracting policies in the Accounting Manual. She also stated the grantee's practice is to solicit competitive bids for services with values greater than \$5,000.

Without detailed written policies and procedures, there could be a lack of transparency and consistency in the application of the reconciliation process, especially in cases of staff turnover.

No Written Contracts

The OIG selected six vendors who provided services to the grantee during the audit period. The grantee paid one vendor \$58,338 for security management services and another \$6,600 for parking services without written contracts in place. The grantee has been using the same security management company for over 10 years according to the Executive Director. The other four vendors who provided services to the grantee had written contracts in place.

The LSC *Fundamental Criteria*, section 3-5.16 stipulates that the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure completion. The process for each contract action should be fully documented and all documentation stored in a central contract file.

The Executive Director explained that he did not want to enter into written contracts for the services because that would bind him to the agreement and he wanted the flexibility to get out of the obligation, considering fluctuating and unreliable cash flows.

A written contract documents the agreement between two parties. It establishes the services to be provided, the time period for those services to be provided, the price of those services and approval of the terms of the contract.

Missing Contract Documentation

The grantee did not have documentation supporting two of its contracts which were above the \$5,000 threshold requirement for soliciting competition. One contract was a security service contract. According to the Executive Director, the contract was competitively bid; however, he was not able to provide documents as evidence that competitive bidding took place. The Executive Director stated that the security contract was over ten years old, and as such, they cannot locate the original contract or competitive bidding related documents.

The second contract was for parking services to be offered to employees. The grantee did not prepare a written sole source justification for the parking services used by the organization. According to the Executive Director, he selected that parking garage because of its proximity to the grantee location; however, a written sole source justification was not prepared and documented.

As stated above, the grantee does not have written policies and procedures in place for competitive bidding, sole source requirements or maintaining contract documentation.

The LSC *Fundamental Criteria*, section 3-5.16 stipulates that the process used for each contract action should be fully documented and the documentation maintained in a central file. Any deviation from the approved contracting process should be fully documented, approved and maintained in a contract file. In addition, the statement of work should be sufficiently detailed so that contract deliverables can be identified and monitored to ensure that the deliverables are completed.

Proper documentation helps ensure the approved contract has followed all established procedures.

Recommendations: The Executive Director should ensure:

Recommendation 1: the written contracting policies in the grantee's Accounting Manual include:

- policies and procedures associated with competitive bidding and sole-sourcing; and
- documentation of policies for contract action such as the basis for vendor selection and justification for retaining vendors.

Recommendation 2: written contracts are prepared and maintained to show all terms of the contract such as price, and agreement on services to be performed.

Recommendation 3: all documentation pertaining to contract actions including solicitation of competitive bids, selection process of vendors and sole source justification are documented and retained.

SUMMARY OF GRANTEE MANAGEMENT COMMENTS

Grantee management agreed with all findings in the report and accepted all three recommendations. Grantee management's formal comments can be found in Appendix II.

OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS

The OIG considers the proposed actions to address Recommendations 1, 2 and 3 as responsive. The actions planned by the grantee management to revise and update its Accounting Manual should correct the issues identified in the report.

However, Recommendations 1, 2 and 3 will remain open until the grantee has provided the OIG an updated Accounting Manual and obtained the required Board of Directors' approval for the new policies and procedures.

APPENDIX I

SCOPE AND METHODOLOGY

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

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

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

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

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. We reviewed supporting documentation and examined approvals for each disbursement. The sample consisted of 60 disbursements totaling \$83,897.24. The sample represented approximately 8 percent of the \$1,090,700.20 disbursed for expenses other than payroll during the period January 1, 2016 to October 31, 2016. To assess the appropriateness of expenditures, we reviewed invoices and vendor lists, then traced the expenditures to the general ledger. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations and LSC policy guidance.

To evaluate and test internal controls over employee benefits, payroll, credit card usage, contracting, property and equipment, internal management reporting and budgeting, general ledger and financial controls, we interviewed appropriate program personnel, examined related policies and procedures as applicable and selected specific transactions to review for adequacy.

To evaluate the adequacy of the cost allocation process, we discussed the cost allocation process with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We reviewed selected transactions to determine if the amounts allocated were in conformity with the documented ENLS allocation process and if the transactions were properly allocated in the accounting system.

Controls over derivative income were reviewed by examining current grantee practices in comparison with policies outlined in the LSC Accounting Guide.

The on-site fieldwork was conducted from December 5, 2016 through December 13, 2016. Our work was conducted at the grantee's central administrative office in Newark, NJ and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2016 through October 31, 2016.

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

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February 27, 2017

Mr. John M. Seeba
Assistant Inspector General for Audit
Office of Inspector General
Legal Services Corporation
3333 K Street, NW
Washington, DC 20007-3522

Re: Draft Report – Audit on Selected Internal Controls
Recipient Number: 331060

Dear Mr. Seeba:

Enclosed is Essex-Newark Legal Services' (ENLS) response to the Draft Report dated February 14, 2017 for the on-site audit visit which was conducted from December 5, 2016 through December 13, 2016.

First and foremost, I want to express our sincere gratitude to your office and each member of the team led by Mike Hart for what was a constructive and helpful review of our internal controls.

I must also compliment your office for the quality of the Draft Report. I found it not only fair but a clear guide providing specifics as to contracting deficiencies and the actions needed to address them. As reflected in the attached comments we will implement the three (3) recommended actions.

Sincerely,


Felipe Chavana
Executive Director

FC/sha
Attachment

RECIPIENT NO.: 331060 - OIG AUDIT VISIT

COMMENTS TO OIG DRAFT REPORT

As set forth on page 2 of the draft report, the OIG reviewed and tested internal controls related to cash disbursements, credit cards, cost allocation, contracting, fixed assets, derivative income, employee benefits, payroll, general ledger and financial controls and internal reporting and budgeting. According to the draft report, the controls in all the above areas, with one exception, appeared to be adequate and in conformance with the *Fundamental Criteria* contained in the LSC Accounting Guide. The sole exception noted was in the area of contracts where the OIG's review of ENLS' Accounting Manual revealed that the written contracting policies do not include:

- The dollar threshold that triggers competitive bidding or the different types of contracts.
- Other competitive bidding requirements such as the minimum number of bids needed or the selection process for vendors.
- Sole-sourcing requirements such as preparing and maintaining written justifications for selecting a vendor without competition.

The draft report also noted that ENLS lacked documentation supporting two of its contacts which were above the \$5,000 ENLS threshold requirement for soliciting competition.

The draft report provides that the Executive Director should ensure implementation of the following three (3) recommendations.

RECOMMENDATIONS:

Recommendation 1: that ENLS amend its Accounting Manual to include:

- Policies and procedures associated with competitive bidding and sole-sourcing; and
- Documentation of policies for contract action such as the basis for vendor selection and justification for retaining vendors.

Recommendation 2: written contracts are prepared and maintained to show all terms of the contract such as price, and agreement on services to be performed.

Recommendation 3: all documentation pertaining to contract actions including solicitation of competitive bids, selection process of vendors and sole source justification are documented and retained.

PROGRAM REPOSE

The Executive Director will present to the ENLS Board draft policies encompassing each of the OIG's three (3) recommendations. Upon their adoption, ENLS will thereafter amend its Accounting Manual and conduct its contracting in conformance with its written amended policies.