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May 6, 2014

Ms. Janice Chapin  
Executive Director  
Central Jersey Legal Services, Inc.  
317 George Street, Suite 201  
New Brunswick, NJ 08901-2006

Dear Ms. Chapin:

Enclosed is the Office of Inspector General's (OIG) final report of our audit on Selected Internal Controls at Central Jersey Legal Services, Inc. The OIG reviewed your comments to the draft report. Your comments are included in the final report as Appendix II.

The OIG considers your comments responsive to our recommendations. Recommendations 1, 3, and 5 will remain open until the OIG has been notified in writing that the applicable written policies have been updated and added to the Administrative Manual and all meetings and training to discuss adherence with accounting policies and procedures has been completed with CJLS staff. Since the actions implemented have fully addressed Recommendations 2, 4, and 6 through 9, we consider them as closed.

We thank you and your staff for your cooperation and assistance.

Sincerely,



Jeffrey E. Schanz  
Inspector General

Enclosure

cc: Legal Services Corporation  
Jim Sandman, President

Lynn Jennings, Vice President  
for Grants Management

**LEGAL SERVICES CORPORATION  
OFFICE OF INSPECTOR GENERAL**

**REPORT ON SELECTED INTERNAL  
CONTROLS**

**CENTRAL JERSEY LEGAL SERVICES, INC.**

**RNO 331110**

**Report No. AU14-03**

**May 2014**

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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 Central Jersey Legal Services (CJLS or grantee) related to specific grantee operations and oversight. Audit work was conducted at the grantee's administrative office in New Brunswick, 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**

CJLS offers legal help in civil (non-criminal) cases for low-income residents of Mercer, Middlesex and Union Counties. CJLS has offices in Trenton, New Brunswick, Perth Amboy and Elizabeth. The most common types of cases handled by the grantee include housing problems, family matters, consumer problems, public benefits and employment, health and education, and elder law. There are other legal problems with which they can help.

According to the audited financial statements for the grantee's fiscal year ended June 30, 2013, approximately 73 percent of the grantee's total support funding was provided by two funding sources: the State of New Jersey and Legal Services Corporation. CJLS received \$1,019,271 from LSC and \$2,616,668 from the state. In addition, the grantee received \$1,355,156 from various local and private sources.

## **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.

## **OVERALL EVALUATION**

Our review noted that the grantee has in place adequate and reliable internal control processes over disbursements. The test of disbursements noted the transactions tested were for the most part adequately supported, allowable, and appeared to be properly allocated to LSC funds.

While many of CJLS' controls were adequately designed and properly implemented as the controls related to specific grantee operations and oversight, some controls need to be strengthened and formalized in writing.

The grantee's current practices involving derivative income, credit card purchases, and cost allocations were generally in accordance with the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the Accounting Guide. However, the policies and procedures in these areas need to be fully documented in writing.

The grantee's current practices involving soliciting and awarding contracts were not in accordance with the *Fundamental Criteria*. During our review, we found that CJLS did not have documentation justifying the process used to obtain two sole sourced contracts identified during testing. CJLS also did not have all supporting documentation for contracts in one centralized location. In addition, the contracting policies and procedures need to be fully documented in writing.

At the time of our review, we found that the fixed assets purchased by CJLS were not tagged. The property records also did not contain all information required by the Accounting Guide, such as the source of funds used, depreciation method and useful life. Several information columns were included on the property records but were incomplete, including the check number used to purchase the item, inventory control numbers and date of acquisition.

Our review of credit card purchases reveals that all supporting documentation was not centrally filed in one location.

Controls over client trust fund accounting were reviewed but not tested. The controls and processes in place were deemed adequate.

The budget and internal management reporting processes are documented in the grantee's administrative manual and appear reasonable and in conformity with the *Fundamental Criteria*. There appears to be adequate participation by the Executive Director, the Controller and the respective Office Managers in the formulation and approval of the budget. The Internal Management Reports are prepared and distributed to the appropriate personnel timely in a format that facilitates adequate monitoring of program financial activity.

## **AUDIT FINDINGS**

### **WRITTEN POLICIES**

Operating practices in place for some areas reviewed were not adequately documented in the grantee's administrative manual in conformity with the *Fundamental Criteria* contained in the LSC Accounting Guide. The CJLS Administrative Procedures Manual documents the policies and procedures to be followed by CJLS staff in meeting the objectives and criteria of LSC and its other funding sources. The grantee's current practices involving derivative income, credit card purchases, and cost allocations were generally in accordance with the *Fundamental Criteria*, contained in the Accounting Guide. However, the policies and procedures in these areas need to be fully documented in writing.

The grantee received various forms of derivative income including attorney fees, fees for service, interest income and other income. The grantee's practice for recording and allocating derivative incomes appears to be adequate. The attorneys' fees and fees for service are allocated based on the percentage of attorneys' time associated with the respective case in accordance with the regulation. Investment income received is based on money received from the State of New Jersey and interest earned based on these funds is allocated to unrestricted funds (operations). Other income mainly consists of court ordered donations which the grantee allocates to unrestricted funds. We noted during our review of the CJLS Administrative Procedures Manual, the grantee does not have documented policies and procedures for recording and allocating derivative income. Without adequate written policies and procedures in place, transactions may be initiated and recorded that violate management intentions or possibly laws and grant restrictions.

CJLS has one credit card account with several authorized users. Discussions held with the CJLS Financial Manager and tests of disbursements included on credit card statements for the period of review showed that the grantee has adequate and reliable internal control processes in place over credit card disbursement processes and procedures; however, the practices were not documented in their Administrative Procedures Manual. CJLS staff explained that although the program does not have

documented policies and procedures over the use of the corporate card, their practice is the same as the procurement policies and procedures documented in their Administrative Procedures Manual. Written policies and procedures serve as a method of documenting the design of controls and communicating the controls to the staff. Without adequate written policies and procedures in place, transactions may be initiated and recorded that violate management intentions, and possibly laws or grant restrictions.

CJLS gathers different types of information to prepare its cost allocation. The CJLS grants manager pulls Census information for each office at the beginning of the cost allocation process to determine what percentage of revenue should be associated with each office to cover its expenses. The budgeted revenue for each grant, not restricted to any office (LSC, Treasury, State, IOLTA, etc.), is then multiplied by the Census percentage calculated and allocated to the various CJLS offices. A percentage of total office location revenue versus total CJLS revenue is calculated to determine what percentage of the office expenses will be allocated as administrative costs. All grants that are received for specific offices or programs are directly allocated to the specific office or program. We tested to ensure the percentages were reasonable and the percentages were being applied as prescribed. While the cost allocation process appears to be reasonable and our testing confirmed the grantee is following these processes, documented procedures relating to cost allocation were not adequate. The procedures need to provide sufficient details, as required by the LSC Accounting Guide, fully describing how percentages are calculated to allocate costs over the various CJLS grants. Without adequate process documentation, staff members may not be able to allocate expenses on a consistent basis across the grants.

Without detailed written procedures, there could be a lack of transparency and consistency in the application of the methodology especially in cases of staff turnover. Approved documented policies and procedures represent management's intentions on how processes are to be handled.

**Recommendations:** The Executive Director should:

Recommendation 1: develop written policies for derivative income that ensure such income is properly recorded and allocated to funding sources;

Recommendation 2: document the current practices over the use of credit cards into the grantee's Administrative Procedures Manual;

Recommendation 3: ensure the cost allocation processes are fully documented in writing.

## **CONTRACTING**

The grantee's current practices involving soliciting and awarding contracts were not in accordance with the *Fundamental Criteria*. In addition, there are no written policies and procedures for contracts and consultants assigning responsibilities and describing the

practices being followed. Some of the major items that need to be included in documented processes are:

- Specific procedures for various types of contracts;
- Competition requirements;
- Approval authorities and dollar thresholds for approvals;
- Documentation requirements to support the contracting decision such as sole source justifications and contract modifications; and
- Contract oversight responsibilities.

Without formal written policies and procedures describing the processes, there is no assurance that staff will follow a consistent approach.

We identified ten written contracts/agreements maintained by CJLS. We reviewed seven of these contracts to verify the contracts were on file, adequate procedures were used to secure the contracts, and confirmed payments made to the vendors were comparable to the contractual amounts. Several of the agreements were continuing agreements entered into during prior periods. Payments made to the contracts were in accordance with the agreements. However, we noted there was no supporting documentation justifying the process used to obtain the two sole sourced contracts identified during testing. The Accounting Guide, under Chapter 3-5.16, notes a key element that should be included by the grantee when establishing whether a contracting policy is documenting the contracting process, rationale and decisions made. Proper documentation helps ensure that the approved contract has followed all established procedures. The purpose of this sole source documentation is to justify that a competitive procurement is impractical because only one product or service can meet the specific need. It is not to be utilized to circumvent normal purchasing procedure, nor for a price-based justification.

In addition, while all contracts located during our visit were filed, not all contracts and supporting documentation for the contracts had been centrally filed in one location. The lack of a centralized filing system could result in lost or misplaced contracting information as well as nonconformity with the *Fundamental Criteria*. 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 the contract file.

**Recommendations:** The Executive Director should:

Recommendation 4: formally document procedures for awarding and modifying contracts and consulting agreements in accordance with the *Fundamental Criteria*. These written policies and procedures should describe the contracting process including the need to seek competition under certain circumstances and ensure that all modifications are in writing and approved.

Recommendation 5: familiarize staff with the LSC Accounting Guide contract criteria to ensure that all requirements are adhered to, including documentation of the contracting process, rationale and decisions made.

Recommendation 6: ensure that a centralized contract filing system is created whereby each contract file relates to a specific contract and contains all pertinent documents related to the solicitation, receipt and evaluation of bids and the award of the contract.

## **FIXED ASSETS**

CJLS fixed assets written policies and procedures were mostly in accordance with the *Fundamental Criteria*, however, the policies lacked the recordkeeping requirements contained in the Accounting Guide. During our review, we learned that much of CJLS's equipment is purchased and tagged by the state. However, the fixed assets purchased by CJLS were not tagged at the time of our review.

According to grantee management, physical inventories are done by CJLS every two years. The most recent physical inventory was performed in June/July 2012. The physical inventory sheet received was created by a grantee staff member as the prior individual that conducted physical inventories was no longer with the organization. There were no tickmarks or identifiers to show changes from prior years, but we did walk through the physical inventory process. The physical inventory practices in place follow the grantee's written policies and are deemed reasonable.

CJLS does not issue cell phones, blackberries or laptops. All laptops used by CJLS staff are issued, tracked, and accounted for by Legal Services of New Jersey (LSNJ) as they were purchased and donated by LSNJ. LSNJ tags all laptops.

The Accounting Guide identifies several categories that should be included in the grantee's property records. During our review, we noted that the following columns are identified on the grantee's property records but are not complete:

- Model and serial numbers;
- Date of acquisition;
- Number of check;
- Costs of property/salvage value; and
- Inventory control numbers.

We also noted the following information was not included on CJLS's property record:

- Useful life;
- Depreciation method;
- Source of funds;
- Condition of the property; and
- Physical inventory date.

The failure to properly tag assets may lead to inefficiency in properly tracking and accounting for fixed assets. Failure to maintain adequate property records may result in the inability to fully account for fixed asset purchases while also not supporting depreciation methods and property asset balances.

Properly accounting for fixed assets enables the grantee to safeguard assets, fully account for the assets purchased, and support reconciliations so that property asset balances are accurate.

**Recommendations:** The Executive Director should:

Recommendation 7: ensure that all fixed assets are properly tagged;

Recommendation 8: update the property records to include all recordkeeping fields required by the *Fundamental Criteria* and ensure that all required information in the fields is maintained.

## **SUPPORTING DOCUMENTATION**

CJLS provided credit card supporting documentation, but the documentation was not maintained in one location and some electronic receipts were not included in the credit card statements file used as support for paying the credit card statement charges. Documentation supporting all disbursements shall be contained in the files according to the Accounting Guide. Inadequate supporting documentation for credit card charges could result in unauthorized disbursements.

The lack of a centralized filing system could result in:

- Less control and security over credit card documentation;
- Lost or misplaced supporting documentation;
- Inconsistencies and nonconformity in the credit card processes; and
- Unnecessary time spent locating documentation.

Recommendation 9: The Executive Director should ensure that all supporting documentation for credit card charges is included with each credit card statement prior to payment and maintained in one central location.

## **SUMMARY OF GRANTEE MANAGEMENT COMMENTS**

Grantee management agreed in principle with all the findings and recommendations contained in the report. Grantee management is developing written policies for derivative income, has updated and added written policies for credit card use, and contracting processes to their Administrative Manual. The contracting procedures include when to seek competition and to ensure that all modifications are in writing and approved. Grantee management is also adding a written description of its policies for derivative income and the cost allocation process to their Administrative Manual. Once the Administrative Manual is complete, management plans to familiarize staff with the changes. Grantee management has reviewed all administrative files and organized the filing system for contracts and credit card purchases. Grantee management has completed an updated and more complete inventory of fixed assets, tagging all assets and adding missing information on their inventory list.

## **OIG EVALUATION OF GRANTEE MANAGEMENT COMMENTS**

The OIG has reviewed the grantee's comments on the draft report findings and recommendations and has determined that the actions CJLS has planned are responsive to the recommendations. Recommendations 1, 3, and 5 will remain open until the OIG has been notified in writing that the applicable written policies have been updated and added to the Administrative Manual and that all meetings and training to discuss adherence with accounting policies and procedures has been completed with CJLS staff. The grantee has fully addressed recommendations 2 and 4 by adding credit card and cost allocations procedures to the Administrative Manual. The grantee has fully addressed recommendations 6 through 9 by organizing the contracts filing system, tagging all assets, adding missing information to the inventory list, and filing all adequate supporting documentation for credit cards in a central location.

# 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;
- Property and Equipment;
- Internal Management Reporting and Budgeting; and
- Cost Allocation.

In addition, we reviewed controls over derivative income and client trust fund accounting. Controls over derivative income were reviewed to determine whether income was properly recorded and allocated. Controls over client trust fund accounting were reviewed but not tested.

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

We assessed the reliability of computer generated data provided by the grantee by reviewing source documentation for the entries selected for review. We determined that the data were sufficiently reliable for the purposes of this report.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. The sample was taken from the period January 1, 2013 through November 30, 2013, and represented approximately 11.3 percent of the \$481,790 disbursed for expenses other than payroll, benefits and depreciation. The sample consisted of 92 transactions (7 voided transactions) totaling

\$53,349. To assess the appropriateness of expenditures, we reviewed invoices and vendor lists, and 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 the contracting process, credit card use, internal management reporting and budgeting, and property and equipment, we interviewed appropriate program personnel, examined related policies and procedures, and selected specific transactions to review for adequacy.

To evaluate the adequacy of the cost allocation process, we discussed the cost allocation process for 2013 with grantee management and requested, for review, the grantee's written cost allocation policies and procedures as required by the LSC Accounting Guide. We recalculated the cost allocation amounts for 2013 using the information provided by the grantee.

Controls over derivative income were reviewed by examining current grantee practices and reviewing the written policies contained in the grantee's Accounting Manual. To evaluate controls over client trust fund accounting, we interviewed appropriate program personnel and examined related policies and procedures.

The on-site fieldwork was conducted from December 9 through December 13, 2013. Our work was conducted at the grantee's central administrative office in New Brunswick, NJ and at LSC headquarters in Washington, DC. Documents reviewed pertained to the period January 1, 2013 through October 31, 2013.

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.

**GRANTEE MANAGEMENT COMMENTS**

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April 17, 2014

John Seeba  
Office of the Inspector General  
Legal Services Corporation  
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Re: Audit of our Internal Controls

Dear Mr. Seeba,

Thank you for the draft report from your audit of our internal controls. The audit came at a very good time since I have recently taken the reins as Executive Director, and the audit was an opportunity to make sure I understand the requirements of the Auditing Guide, and that we are following them correctly. Since the exit interview we have been working on the recommended actions that were suggested by your staff.

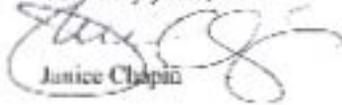
Specifically as to the written recommendations:

1. We are developing written policies for derivative income that ensures such income is properly recorded and allocated to the correct funding sources. We are adding that policy to our Administrative Manual.
2. We have added a description of our credit card use practices to our Administrative Manual.
3. We are adding a description of our cost allocation process to our Administrative Manual.
4. We have added more details regarding our contracting procedures to our Administrative Manual, including when to seek competition and making sure that all modifications are in writing and approved.
5. When we have completed the updates to our Administrative Manual we will familiarize the staff with the changes including the documentation that is required for contracting services and the criteria for seeking competitive quotes.
6. We have completely reviewed all the administrative files and organized the filing system. Each contract file now contains all pertinent documents related to the solicitation, receipt and evaluation of bids and the award of the contract.
7. We have completed an updated and more complete inventory of our fixed assets, tagging all assets and adding the missing information that we have to the inventory list.

8. See Number 7 above.
9. We are now making sure that each item charged on the credit card has adequate supporting documentation and that the documentation is filed with the credit card statement in the central location for all paid items.

I hope I have addressed each of the recommendations to your satisfaction. Again, thank you for your help in this process.

Very truly yours,

  
Janice Chapin