



Inspector General
Jeffrey E. Schanz

February 5, 2009

Ms. Deierdre L. Weir
Executive Director
Legal Aid and Defender Association
613 Abbott Street
Detroit, MI 48226

Dear Ms. Weir:

Enclosed is the Office of Inspector General's final report on the results of our audit on Selected Internal Controls at Legal Aid and Defender Association, Inc. A review of your response with regard to the findings and recommendations in the draft report disclosed that the actions taken fully address Recommendations 6, 7, 8, 9, and 11 of this report. Based on your comments, these recommendations are considered closed.

Your response to the draft report described actions to address Recommendations 1, 2, 3, and 4. However, the actions are not sufficient to address the issues identified in the findings. Therefore, these recommendations will remain open and be forwarded, along with the associated questioned costs, to LSC management for action.

While management actions do address Recommendations 5 and 10, the questioned costs identified in the findings will be referred to LSC management. Thus, these recommendations will remain open pending LSC management action on the questioned costs.

I want to thank you and your staff for the cooperation and assistance you provided us.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey E. Schanz", is written over a horizontal line.

Jeffrey E. Schanz
Inspector General

cc: Legal Services Corporation
Helaine Barnett, President

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**REPORT ON SELECTED INTERNAL
CONTROLS**

LEGAL AID AND DEFENDER ASSOCIATION, INC

RNO 423148

Report No. AU09-02

February 2009

www.oig.lsc.gov

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INTRODUCTION

In November 2007, management of the Legal Services Corporation (LSC) referred to the Office of Inspector General (OIG) for follow-up, instances of internal control weakness at certain LSC grantees identified in the Government Accountability Office (GAO) Draft Report entitled, *Legal Services Corporation – Improved Internal Controls Needed in Grants Management and Oversight*, or identified in a November 13, 2007 meeting between GAO and LSC staff.

LSC management requested that the OIG assess whether the issues specifically identified by GAO had been corrected at each of grantees referred to the OIG by management.

BACKGROUND

GAO assessed whether LSC's internal controls over grants management and oversight processes provide reasonable assurance that grant funds are used for their intended purposes. GAO analyzed records and interviewed LSC officials to obtain an understanding of LSC's internal control framework, including the monitoring and oversight of grantees, and performed limited reviews of internal controls and compliance at 14 grantees. GAO found control weaknesses at 9 of the 14 grantee sites it visited. These weaknesses included using LSC grant funds for expenditures with insufficient supporting documentation, and for unusual contractor arrangements, alcohol purchases, employee interest-free loans, lobbying fees, late fees, and earnest money.

OBJECTIVE

Our overall objective was to determine whether the conditions cited in the GAO report were corrected and controls put in place by Legal Aid and Defender Association, Inc. of Detroit (grantee) to detect similar situations and prevent them from recurring. In addition, we evaluated other selected financial and administrative areas and tested the related controls to ensure that expenditures were adequately supported and allowed under the LSC Act and regulations.

SCOPE AND METHODOLOGY

To accomplish our objective we reviewed controls over the client intake process; employee benefits and reimbursements; and disbursements. To obtain an understanding of the internal control over these areas, we reviewed grantee policies and procedures, including any manuals, guidelines, memoranda, and directives setting forth current grantee practices. We interviewed grantee

officials to obtain an understanding of the internal control framework and interviewed grantee management and staff as to their knowledge and understanding of the processes in place.

We conducted fieldwork at the grantee's central administrative office in Detroit. To test for the appropriateness of expenditures and the existence of adequate supporting documentation, we reviewed disbursements from a judgmentally selected sample of vendors and employees. 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 grant agreements, applicable laws and regulations, and LSC policy guidance. This review was limited in scope and was not sufficient for expressing an opinion on the entire system of grantee internal controls or compliance.

Audit fieldwork was conducted from April 21 through April 25, 2008. Documents reviewed pertained to the period January 1, 2007 through March 31, 2008, except for our review of the information technology contract, which covered the period January 1, 2005 through February 29, 2008. Our work was conducted at the grantee's site and at LSC headquarters in Washington, DC.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

We found that the issues raised in the GAO report still existed at the Legal Aid and Defender Association, Inc. of Detroit. The information technology (IT) contract did not reflect the grantee's current IT situation and resulted in payments exceeding the contract terms; travel expenses were not adequately documented; and LSC funds were used to purchase alcohol.

In addition to the GAO issues, we found that:

1. LSC funds were used for mortgage payments, creating a reversionary interest to LSC which was not properly documented;
2. The intake staff did not inquire about callers' citizenship or alien status during telephone intake screening;
3. Some cost reallocations were not adequately supported; and
4. Allocations of indirect costs were not adjusted at year end for actual charges.

With regard to disbursements, we reviewed 181 transactions amounting to \$962,000 from 24 judgmentally selected vendors and grantee staff to determine whether disbursements were supported, allowable, and properly allocated to LSC. With the exception of the findings noted above, the disbursements were supported, allowable and properly allocated.

RESULTS OF AUDIT

FOLLOW-UP ON GAO CONCERNS

GAO identified internal control weaknesses at this grantee dealing with unusual contract arrangements, documenting travel expenses and using grant funds for alcohol purchases.

- **Information Technology Contract**

GAO reported an unusual contractor arrangement with the individual who provided IT services to the grantee. We found that the grantee reimbursed its IT contractor about \$464,000 more than the \$300,800 authorized by the contract for the period January 1, 2005 through February 29, 2008. Over \$267,000 of the amount paid above the contract terms was paid with LSC funds.

The contractor was engaged to operate the grantee's IT services and maintain its network. When the contractor began working for the grantee, the contract was written to reflect him as the only individual who would be providing services under the contract. According to the contractor, he began hiring staff to assist him as the work expanded over time. However, the contract was never amended to reflect the change in work or the cost of such work. Rather, the contractor would simply bill the grantee for the cost of the contractor's additional employees, which the grantee paid. The grantee's Executive Director stated that not amending the contract to reflect the changes was an oversight and she acknowledged that they did not have controls in place to prevent the payment of amounts in excess of amounts authorized in the contract.

Basic internal controls ensure that one does not pay for something that has not been ordered. Good contracting ensures that if changes are needed, such as increasing the number of contract staff to perform the contract, a formal process is entered into to determine what change will be made, when it will be made, and at what cost. If it is determined that a change is necessary, then a formal document should be drafted describing the change, in which both parties indicate their acceptance of the new terms. This process would ensure adequate documentation of the cost in accordance with 45 CFR Section 1630.3(a)(9).

As a result of our finding, we are questioning the \$267,000 charged to LSC funds as unsupported costs within the meaning of 45 CFR Sections 1630.2(g)(2) and

1630.3(a)(9), and will refer these costs to LSC management for review and action.

Recommendations: The Executive Director should:

1. Establish procedures to ensure that payments for services or goods do not exceed agreed upon prices and document these procedures in the Accounting Manual;
2. Enter into negotiations with the IT contractor to amend the current contract to fully reflect the work currently being performed and the associated costs; and
3. Develop a new statement of work clearly describing what the organization needs, the work product to be delivered, and how performance will be measured; and re-bid the contract under a competitive process to ensure that the organization receives the best value for its money.

Grantee Management Comments. The Executive Director stated:

“LAD acknowledges that it did not revise the contract with MSM-NSI when the contractor expanded its staffing to meet organizational demands. Attached, is the revised contract that was executed on September 14, 2008. The revised contract reflects LSC recommendations. It should be noted that when contractor services were increased, LAD implemented a procedure whereby the contractor was required to submit signed and approved timesheets that supported the hourly payments being made to MSM-NSI contract personnel. Specifically, the reported \$267,000 in payments was supported with timesheets for all MSM-NSI personnel are based on the signed and approved timesheets. LAD was and is at all times, aware of and approves all payment amounts under the contract.”

As a result of the OIG discussing this issue with grantee management concerning the initial comments, supplemental comments dated January 17, 2009 were received on February 2, 2009. In these comments, the Executive Director stated:

“LAD will modify the contract to reflect the payments to MSM-NSI independent contractors. Specifically, the contract will be amended to provide a ‘not to exceed’ cost provision.”

Evaluation of Grantee Management Comments. Management comments and actions do not address recommendations 1 through 3 in this report and will be referred, along with the associated question costs, to LSC management for review and action.

Recommendation 1. Management comments addressed only the IT contract and do not address the implementation of procedures governing payments under contracts for goods and services generally. Specifically, management did not indicate that procedures were established addressing payments for contracts and that those procedures were included in the Accounting Manual.

Recommendation 2. While management did revise the IT contract, we were informed by management that the contractor's employees were still to be paid based on timesheets submitted by the contractor. While a "not to exceed" provision places a cap on the cost of the contract, the provision does not ensure that the cost of services received is reasonable or that all services are included in the contract.

Recommendation 3. Management did not specifically state that the revised contract included a new statement of work that captured all work to be performed, the deliverables and the performance measures that would be used. Also, management did not state the revised contract was a result of a competitive process as recommended. Unless the full scope of work, with deliverables and measurements are identified, potential contractors may not be able to accurately bid on the contract. In addition, if one bidder includes only a portion of the cost in the bid and the other bidders include the full cost, grantee management will not have the appropriate information to make an informed decision and the bidder who did not include all costs may have an unfair advantage.

We do not believe that adequate controls are in place to protect and ensure that LSC funds are properly expended. This is because the contract does not address the cost of all services to be received and the contract may not have been competitively bid or, if bid, one bidder may have had an unfair advantage over other bidders. Therefore, we are referring the finding, recommendations, and questioned costs to LSC management for review and action.

- Travel Payments

We noted four travel advances that were not supported by travel expense reports, and several travel-related charges to the organization's credit card that also were not adequately supported. Per discussion with the Executive Director and Finance Director and a review of the grantee's Accounting Manual, the grantee requires employees to prepare a Training Request Form in anticipation of training-related travel, but it does not require employees to prepare an expense report to reconcile the travel advances or to report charges made on the organization's credit cards. Further, while the training request form is necessary to obtain a travel advance, a copy of that form is not kept with disbursement documentation.

The four travel advances totaled \$812.50. The Check Request forms appeared to be properly completed, but without travel expense reports we could not determine whether the trips were actually completed and whether the advances were reconciled. In addition, the Finance Director said she could not locate the Training Request forms that related to the disbursements.

We reviewed three of the grantee's credit card bills and noted several travel related expenses, but we were unable to relate these transactions to any particular authorized trip. For example, two of these transactions were fuel purchases. While the receipts were attached, we could not determine what authorized travel event they were related to and why the purchases were incurred. The Finance Director was unable to determine the authorized purpose of the charges.

According to the grantee's Accounting Manual, "Employees whose actual expenses are less than their per diem are not required to refund the excess. However, excess amounts advanced for days not actually traveled [in case of rescheduling], must be returned to the employer, or such amounts will be taxable as wages." The manual does not, however, require employees to file an expense report that the finance office can use to determine whether travel was completed as anticipated, and whether funds are due back to the organization.

On March 20, 2008, LSC issued its "Fiscal Management and Use of LSC Funds" advisory, which reminded grantees that proper documentation of expenditures using LSC funds was important and that the utmost care must be given so that programs avoid making inappropriate expenditures.

Recommendation 4: The Executive Director should revise the Accounting Manual to require that: (1) travel expense reports are filed for all travel, travel advances, and travel related expenses, such as fuel charges on credit cards; (2) copies of all supporting documentation, including the Training Form Request, are filed with the disbursement documentation; and (3) travel advance funds are recouped if the travel for which they were advanced does not occur.

Grantee Management Comments. The Executive Director stated:

"The Training Form Request will be forwarded to Finance for filing with disbursement documentation. The Accounting Manual was updated and approved by the Board Directors (October 2008) to comply with this recommendation."

As a result of the OIG discussing this issue with grantee management concerning the initial comments, supplemental comments dated January 17, 2009 were received on February 2, 2009. In these comments, the Executive Director stated:

“It is our understanding that LAD’s reviewed process for handling per diem payments made to employees for travel purposes were difficult to trace; i.e. too difficult to match the travel with the payments. LAD has revised the “Per Diem Check Request” to include the following:

- Check number for the payment of the hotel
- Check number for the payment of airfare/transportation cost
- Check number for conference registration fees payment

As a result of these changes, per diem payments will be easily traced to actual travel. It is LAD’s position that implementation of this procedure will eliminate the need to have a staff member complete a report upon returning from the meeting or conference.

In a related matter, the draft report issued a recommendation that LAD should revise its accounting manual to require that travel advance funds are recouped if the travel for which the funds were advanced does not occur. It should be noted that the manual does address this recommendation.

Further, the draft report makes reference to fuel purchases with limited supporting documentation. It should be noted that the fuel purchase was based on travel paid through the Skillman Foundation grant, and not the Legal Services Corporation. The expenditure was on a credit card bill that included expenditures for LSC-paid conferences. We failed to bring this matter to the auditor while on-site.”

Evaluation of Grantee Management Comments. Management actions partially address Recommendation 4. While some changes have been made to address the recommendation, management has not agreed to implement a requirement to have travel expense reports for all travel, travel advances, and travel related expenses.

Basic internal controls require that those responsible for the expenditure of funds document and take responsibility for those expenditures. Relying solely on checks sent to hotels, airlines, or others does not provide adequate control to ensure that only reasonable and necessary expenses were paid with the organization’s fund and that the individual incurring the expenses takes responsibility for those expenses. Not requiring the matching of expense reports and costs incurred to amounts paid by the organization may allow the unauthorized use of funds to go undetected because there is not adequate documentation to fully support the payments made.

Although the Accounting Manual addresses the repayment of unused travel advances, as indicated in management comments, it does not do so in a manner adequate to ensure that travel advance funds are recouped if the travel for which they were advanced does not occur. The current wording of the Accounting Manual gives employees the misimpression that repaying unused advances is optional. The manual states "...excess amounts advanced for days not actually traveled, must be returned to the employer, or such amounts will be taxable as wages." As such, it can be read to allow employees to retain travel advances, although taxable as wages. The Manual should be changed to have repayment of excess amounts as the only option rather than having the option of no repayment as the Manual currently provides.

Therefore, we are referring the finding and recommendation to LSC management for review and action.

- Alcohol and Alcohol Related Disbursements

The grantee expended LSC funds for an activity that included the purchase of alcohol and liquor liability insurance. This expenditure was for an annual spring reception held in May 2007. The supporting documentation showed \$2,500.00 was expended for alcohol and non-alcohol purchases and \$537.50 was for liquor liability insurance. The documentation related to the \$2,500.00 expenditure did not provide sufficient detail to determine how much was spent on alcohol and how much was spent on non-alcohol related items. Therefore, because grantees are required to adequately document expenditures, we are questioning the entire \$2,500.00 and the \$537.50 for liquor liability insurance as an unallowable use of LSC funds.

Subsequent to GAO's December 2007 draft report, which noted issues relating to the use of LSC funds for alcohol purchases, LSC issued an advisory on March 20, 2008 referencing OMB Circular A-122, Attachment B, reminding grantees that using LSC funds to purchase alcohol was prohibited.¹

We question the \$3,037.50 associated with the purchase of alcohol and related liquor liability insurance and, pursuant to 45 CFR Part 1630, we are referring these costs to LSC management for review and action.

Recommendation 5: The Executive Director should update the grantee's Accounting Manual to prohibit the purchase of alcohol with LSC funds.

¹ LSC's regulation 45 CFR 1630.3(i) and LSC's "Accounting Guide for LSC Recipients" state that the Office of Management and Budget's (OMB) Circular A-122, "Cost Principles for Non-Profit Organizations," is generally applicable to allowable cost questions arising from expenditures by LSC grantees. The circular's Attachment B, "Selected Items of Cost," provides rules to be applied in determining whether certain items of cost are allowable, and identifies alcohol as an unallowable expense.

Grantee Management Comments. The Executive Director stated:

'The Accounting Manual will be revised to prohibit the purchase of alcohol with LSC funds. Furthermore, to ensure that grant funds are not used in the future for the purchase of alcoholic beverages, the following policy language will be added to the manual:

“Alcohol Expenditures

It is the policy of LAD to allow for the purchase of alcoholic beverages under limited circumstances; i.e. special LAD events, and with non-LSC funds. LSC Regulation 45 CFR 1630.3 (i) and LSC’s Accounting Guide for LSC Recipients prohibits the use of funds for the purchase of alcohol with LAD funds. It is recommended that any allowable purchases of alcoholic beverages be made from non-LSC funds.

“It should be noted that the LSC questioned costs of \$2,500.00 and \$537.50 relate to LAD’s contribution/donation to the Wayne State University’s Free Legal Aid Clinic (FLAC) annual fundraiser. The dollars were not expended for any LAD function. In the future, LAD will take steps to ensure that any contributions, donations, or reimbursements made to third parties for special events will be fully documented to detail all expenditures, so as to avoid this problem in the future.”

Evaluation of Grantee Management Comments. Management comments address the issue identified pertaining to the purchase of alcohol. Management indicated in its response that the Accounting Manual would state “It is **recommended** [emphasis added] that any allowable purchases of alcoholic beverages be made from non-LSC funds.” However, the revised Accounting Manual provided to the OIG by grantee management states the following in regard to the purchase of alcohol “Any expenditures shall be made from the LAD Friends of Legal Aid Account and not from grant funds.” Because the Accounting Manual includes a prohibition on purchasing alcohol with grant funds, management actions are considered responsive to the recommendation to ensure that this problem does not recur. However, we are referring the questioned costs to LSC management for review and action. Finally, regarding the comment indicating that the amounts questioned related to a contribution to an legal aid clinic fundraiser, it should be noted that contributions or gifts of LSC funds to other organizations or individuals are prohibited by LSC regulation 45 CFR Section 1627.5.

NON-GAO ISSUES IDENTIFIED DURING AUDIT

- Building Mortgage Paid with LSC Funds

The grantee used LSC funds to help purchase its headquarters building thereby requiring the grantee to establish a reversionary interest for LSC in the building. Grantee management stated that they had not intended to use LSC funds or to create a reversionary interest for LSC in the building. However, in 2007 and 2008 the grantee allocated \$102,017 of the building's mortgage interest payments to LSC funds, thus requiring the grantee to create a reversionary interest in the building for LSC.

Section 2-2.4 of the Accounting Guide for LSC Recipients states that LSC maintains a reversionary interest in all real property purchased by a recipient using LSC funds in whole or in part. Section 4(e) of LSC's Property Acquisition and Management Manual requires LSC and the recipient to enter into a written LSC property interest agreement prior to using LSC funds.

Since a reversionary interest has not been formally established in accordance with LSC's Property Acquisition and Management Manual and it appears that the grantee's intent is not to establish such a relationship, we question the \$102,017 of LSC funds used in mortgage payments, and pursuant to 45 CFR Part 1630 we are referring these costs to LSC management for review and action.

Recommendations: The Executive Director should:

6. Establish controls to ensure that all expenditures are properly allocated to the correct funding source;
7. Contact LSC management to either establish a formal reversionary interest in the property, or repay LSC for all LSC funds used in purchasing the building;
8. Create property records with regard to the building in accordance with the recordkeeping requirements of the LSC Property Acquisition and Management Manual if LSC funds are not repaid.

Grantee Management Comments. The Executive Director stated:

"The Accounting Manual was updated and approved by the Board of Directors (October 2008) to comply with this recommendation.

"At the LSC exit interview, it was not definitive if the payment of interest costs with LSC funds created a reversionary interest in its ownership of the facilities located at 613 Abbott Street and 1240

Third Street. Upon subsequent notification that, indeed, the payment of mortgage interest with LSC funds created a reversionary interest, LAD took immediate steps to reverse the payments. The \$102,017 cost cited in the report that was used for mortgage interest payments were reversed out and returned back to the LSC account.

“It was never LAD’s intent to create a reversionary interest in its ownership of the facilities located at 613 Abbott Street and 1240 Third Street. LAD has ceased using any LSC funding for mortgage or interest payments, and will not do so in the future. Consequently, therefore, there is no need to establish a formal reversionary interest agreement with LSC.”

Evaluation of Grantee Management Comments. Management actions taken address the finding and recommendations. Therefore the finding and recommendations are closed.

- Telephone Intake

On two occasions we observed telephone intake workers not asking the callers if they were citizens or eligible aliens. When asked why, one intake worker stated that contemporaneously with the telephone call, she was able to verify on the computer that the caller had been a prior client and that citizenship/alien status was indicated. The other intake worker stated that she had assumed the caller was either a citizen or eligible alien.

We observed the screening of several incoming calls and noted that the intake workers asked relevant questions to determine whether the caller should be processed for intake or denied service with a referral to another organization if possible. All callers but two were advised that the grantee could not assist them. In processing the two accepted calls, the intake workers continued to ask relevant questions except for the applicants’ citizenship or alien eligibility.

Our review of the grantee’s operations manual noted that it does not require intake workers to ask about citizenship or alien eligibility. Instead, the manual had the intake staff focus solely on the caller’s legal issue, financial eligibility, and possible conflicts of interests. Citizenship and alien eligibility were addressed in the operations manual, but only after the initial intake screening. While the screeners have access to the operations manual, they use a guidance sheet that highlights the issues from the operations manual that they are to ask callers about. Like the operations manual, the guidance sheet did not require screeners to ask about citizenship or alien status.

LSC’s regulation 45 CFR Part 1626, Restrictions on Legal Assistance to Aliens, generally prohibits grantees from providing legal assistance for or on the behalf

of an ineligible alien. If the grantee only provides brief service via the telephone, the grantee is not required to obtain signed citizenship attestations or review eligible alien documentation. However, the grantee still must have the caller assert their citizenship or alien eligibility.

After we discussed our observations of intake screening with grantee management, they immediately revised the telephone intake guidance sheet so that questions on citizenship and alien eligibility would be asked first. We believe this was a positive step to improve telephone intake with regard to citizenship and alien eligibility, and demonstrated management's concern with conducting intake in accordance with LSC regulations.

Recommendation 9: The Executive Director should revise the grantee's operations manual to require intake screeners to ask applicants whether they are U.S. citizens or what their alien status is, and retrain the intake staff about the need to ask about U.S. citizenship and alien status to determine eligibility.

Grantee Management Comments. The Executive Director stated:

"Staff was retrained on the policy the Friday after the incident. New staff are trained when hired and this issue will be addressed annually. The citizenship question has been moved up on the screening process form and the screening tool in our new case management system has been configured to address this issue. The citizenship questions are now follows [sic] the second question asked after the question: 'What is Your Legal Problem.'"

Evaluation of Grantee Management Comments. Management actions taken address the finding and recommendation. Therefore the finding and recommendation are closed.

- **Cost Allocations Not Always Supported**

The grantee did not adequately support three reallocations between United Way and LSC. As a result, we were not able to determine whether the disbursements were allowable and allocable to the LSC grant. We also found two transactions related to the reallocations that the grantee incorrectly recorded twice.

The reallocations were transfers from United Way to LSC for \$1,833.76, \$474.50, and \$147.78, respectively. At our request, the Finance Director researched the reallocations but was unsuccessful in finding supporting documentation. The Finance Director also could not recall the reason for the reallocations and how the amounts were derived.

The Accounting Guide for LSC Recipients, Section 3.5-6, states that each entry to the general journal should be, among other things, fully described and

adequately documented. Incomplete, inaccurate, or unsupported entries to the general journal increase the possibility that the financial data may misrepresent the actual financial position of the grantee.

We also noted there were duplicate postings of \$236.00 and \$324.50 to the general journal for two transactions related to the reallocations. We are questioning these duplicate charges.

We consider the \$2,456.04 reallocated from the United Way to LSC funds and the \$560.50 in duplicate postings to be questioned costs within the meaning of 45 CFR Part 1630, and we are referring these costs to LSC management for review and action.

Recommendation 10: The Executive Director should ensure that all general journal entries are fully described and adequately supported as required by the LSC Accounting Guide for LSC Recipients.

Grantee Management Comments. The Executive Director stated:

“The President and CEO will review procedures to verify adherence to this recommendation. Journal entries will be fully described and properly documented.”

Evaluation of Grantee Management Comments. Management comments address the finding and recommendation. However, we are referring the questioned costs to LSC management for review and action.

- Allocation of Indirect Costs

LSC’s regulation 45 CFR Part 1630.3(f) allows the allocation of indirect costs where total allowable indirect costs are divided by an equitable distribution base and distributed to individual grant awards accordingly. The grantee does not use a distribution base that assures an accurate distribution among individual grant awards.

During the year, the grantee’s indirect costs are allocated to various funding sources based on the previous year’s data, but the grantee does not adjust the allocations at the year end based on current year data. The grantee’s Accounting Manual does not require indirect costs be adjusted at the fiscal year end based on that year’s actual distribution base.

LSC’s regulation 45 CFR Part 1630.3(i) states that OMB Circulars shall provide guidance for all allowable cost questions arising under Part 1630, as long as the Circulars’ relevant policies or criteria are not inconsistent with relevant LSC laws and regulations. OMB Circular A -122, provides guidance concerning the base period for allocating indirect costs, and that is the period in which such costs are

incurred and accumulated for allocation to work performed in that period. As an example, the base period for indirect costs incurred during 2008 should likewise be 2008. In contrast, the grantee uses 2007 as the base year for allocating costs incurred in 2008. By not matching indirect costs to the base year in which the costs were incurred, the grantee potentially misstates the relative benefits that such expenditures may impart to a particular fund.

Recommendation 11: The Executive Director should (1) adjust indirect costs to the various funding sources at the fiscal year end using that year's actual distribution base, and (2) revise the Accounting Manual to require a fiscal year end adjustment of indirect costs based on that year's actual distribution base.

Grantee Management Comments. The Executive Director stated:

"The accounting manual section 'Administrative Fees' will be updated to reflect this recommendation."

Evaluation of Grantee Management Comments. Management comments address the finding and recommendation. The Accounting Manual has been modified. Therefore, we consider the finding and recommendation closed.



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December 12, 2008

Ronald D. Merryman
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Dear Mr. Merryman,

Legal Aid and Defender Association (LAD), Inc. is writing in response to your letter dated October 29, 2008 regarding the audit for Selected Internal Controls.

Enclosed are the following documents:

1. Response to Recommendations
2. I/T Contract

A copy of the updated Accounting Manual will be forward via email.

If you have any questions, please contact Angela Smith, V.P., Finance at (313) 967-5602.

Sincerely,

Deierdre L. Weir
President and CEO

Enclosures

Providing High Quality Legal Services to Disadvantaged Residents of Metro Detroit Since 1909.

LEGAL AID AND DEFENDER ASSOCIATION, INC.
RESPONSE TO THE
LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL AUDIT REPORT

Information Technology Contract

Response to Recommendations 1 – 3

LAD acknowledges that it did not revise the contract with MSM-NSI when the contractor expanded its staffing to meet organizational demands. Attached, is the revised contract that was executed on September 14, 2008. The revised contract reflects LSC recommendations. It should be noted that when contractor services were increased, LAD implemented a procedure whereby the contractor was required to submit signed and approved timesheets that supported the hourly payments being made to MSM-NSI contract personnel. Specifically, the reported \$267,000 in payments was supported with timesheets for all MSM-NSI personnel who work under the direct supervision of the contractor. Payments to MSM-NSI personnel are based on the signed and approved timesheets. LAD was and is at all times, aware of and approves all payment amounts under the contract.

Travel Payments

Response to Recommendation 4

The Training Form Request will be forwarded to Finance for filing with disbursement documentation. The Accounting Manual was updated and approved by the Board of Directors (October 2008) to comply with this recommendation.

Alcohol and Alcohol Related Disbursements

Response to Recommendation 5

The Accounting Manual will be revised to prohibit the purchase of alcohol with LSC funds. Furthermore, to ensure that grant funds are not used in the future for the purchase of alcoholic beverages, the following policy language will be added to the manual:

Alcohol Expenditures

It is the policy of LAD to allow for the purchase of alcoholic beverages under limited circumstances; i.e. special LAD events, and with non-LSC funds. LSC Regulation 45

CFR Part 1630.3 (i) and LSC's Accounting Guide for LSC Recipients prohibits the use of funds for the purchase of alcohol with LAD funds. It is recommended that any allowable purchase of alcoholic beverages be made from non-LSC funds.

It should be noted that the LSC questioned costs of \$2,500.00 and \$537.50 relate to LAD's contribution/donation to the Wayne State University's Free Legal Aid Clinic (FLAC) annual fundraiser. The dollars were not expended for any LAD function. In the future, LAD will take steps to ensure that any contributions, donations, or reimbursements made to third parties for special events will be fully documented to detail all expenditures, so as to avoid this problem in the future.

Building Mortgage Paid with LSC Funds

Response to Recommendations 6 – 8

The Accounting Manual was updated and approved by the Board of Directors (October 2008) to comply with this recommendation.

At the LSC exit interview, it was not definitive if the payment of interest costs with LSC funds created a reversionary interest in its ownership of the facilities located at 613 Abbott Street and 1240 Third Street. Upon subsequent notification that, indeed, the payment of mortgage interest with LSC funds created a reversionary interest, LAD took immediate steps to reverse the payments. The \$102,017 cost cited in the report that was used for mortgage interest payments was reversed out and returned back to the LSC account.

It was never LAD's intent to create a reversionary interest in its ownership of the facilities located at 613 Abbott Street and 1240 Third Street. LAD has ceased using any LSC funding for mortgage or interest payments, and will not do so in the future. Consequently, therefore, there is no need to establish a formal reversionary interest agreement with LSC.

Telephone Intake

Response to Recommendation 9

Staff was retrained on the policy the Friday after the incident. New staff are trained when hired and this issue will be addressed annually. The citizenship question has been moved up on the screening process form and the screening tool in our new case management system has been configured to address this issue. The citizenship questions are now follows the second question asked after the question: "What is Your Legal Problem."

Cost Allocations Not Always Supported

Response to Recommendation 10

The President and CEO will review procedures to verify adherence to this recommendation. Journal entries will be fully described and properly documented.

Allocation of Indirect Costs

Response to Recommendation 11

The accounting manual section "Administrative Fees" will be updated to reflect this recommendation.

IT SERVICES AGREEMENT

This Agreement is made effective October 1, 2008 ("Effective Date"), by and between the Legal Aid and Defender Association, Inc. ("LAD") and MSM Networking Solutions Inc. ("NSI").

1. DESCRIPTION OF SERVICES:

- a. NSI shall provide to LAD the services at the service levels defined on Exhibit A (the "Services").
- b. NSI shall furnish an adequate number of properly trained and fully qualified personnel, including supervisory and management personnel, to provide Services (See Exhibit C).
- c. From time to time, LAD may request that NSI perform services that are outside the scope of the Services, or are not included in the Services, and all such services will be known as "Supplemental Services." NSI shall propose pricing (which may include fixed fee pricing), a project plan, a timeline and a payment schedule for all Supplemental Services. If the proposal for Supplemental Services is approved by LAD, the pricing, payment schedule and other terms applicable to the Supplemental Services shall, by reference therein, become a part of this Agreement.
- d. Any NSI employee or contractor assigned to work for NSI under this Agreement who will have access to LAD facilities, personnel, computers or electronically stored information must have his or her assignment first approved by LAD, in writing. Such approval will be granted at LAD's sole discretion. LAD reserves the right to request at any time and for any reason that any employee, contractor, contractor, or agent of NSI providing services to NSI under this Agreement to be removed from and no longer assigned by NSI to perform such services. Said individual(s) or contractor(s) shall be promptly replaced, as necessary, to the satisfaction of LAD. NSI shall promptly comply with such request by LAD and agrees and acknowledges that LAD will bear no liability relating to its right to remove such individuals from providing such services and having such individuals replaced. NSI's decision to continue any removed employee's employment on other NSI assignments is solely a matter within NSI's discretion.
- e. Each individual provided by NSI hereunder shall be employees or independent contractors of NSI. The hiring and engaging, staffing, supervising, directing, evaluating, scheduling, assigning, disciplining, firing and terminating, establishing of rates of pay, benefits and other personnel and contract related matters involving NSI provided personnel shall be the sole responsibility of NSI. All contractors contracted by and with NSI to provide service under this Agreement shall be

contractors of NSI and neither said contractors, nor their employees, shall have any contractual or employment relationship with LAD. LAD shall have no obligation to control, or right to control, any NSI employee or any contractor contracted by and with NSI (including any such contractor's employees) with respect to services performed by such employee or contractor under this Agreement. NSI assumes sole responsibility for all payments and other obligations due to said employees and contractors performing services for LAD due to this Agreement, including but not limited to all obligations to employees under applicable law (including but not limited to the federal Fair Labor Standards Act, the Family and Medical Leave Act, the Employee Retirement and Income Security Act, the Internal Revenue Code, the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Worker Adjustment and Retraining Notification Act, and the National Labor Relations Act, as well as state civil rights laws, employment laws, workers' and unemployment compensation laws). NSI shall also be solely responsible for a recordkeeping and postings with respect to its employees and such contractors as may provide it with services in relation to this Agreement. It is the parties' intent with regard to such employees and contractors that LAD shall bear no obligation or burden of an employer to said parties. Such contractors and employees shall not also be, nor shall they be deemed to be, common law employees of LAD.

f. NSI acknowledges that NSI has reviewed and agrees to abide by all relevant employee, contractor or contractor policies or statements with respect to conduct at the workplace. NSI will be responsible for acquainting each NSI employee, contractor, contractor or agent with the contents of these policies or statements and ensuring that each employee, contractor, contractor or agent abides by them and any updates thereto as issued by LAD from time to time. NSI shall provide its employees, contractors, contractors, and agents and work vehicles with identification in accordance with current LAD requirements. NSI and its employees, contractors, contractors, and agents shall abide by all LAD work rules, as generally required by LAD and communicated to NSI, while on LAD premises. LAD shall have the right to modify the work rules or promulgate additional work rules, and NSI and its employees, contractors, contractors, and agents shall comply with such modified or additional work rules immediately following receipt thereof.

2. **DURATION OF AGREEMENT:** This Agreement shall become effective on the Effective Date and shall terminate on September 30, 2010.

3. **TERMINATION OF AGREEMENT:** LAD may terminate this Agreement at any time, with or without notice or cause. Upon termination, all payments due NSI under this Agreement, shall be prorated based on the number of uncompensated days worked at the time of the termination of this Agreement.

4. **PAYMENT:** LAD shall pay to NSI FOUR THOUSAND THREE HUNDRED AND FIFTY-FOUR DOLLARS AND SIXTEEN CENTS (\$4,354.16) for Services rendered coincident with LAD's payables cycle on the fifteen and last day of each month.

5. **TAX LIABILITY:**

- a. As an independent contractor, hired to perform the Services, NSI shall be responsible for its tax liability, including all payments and liabilities due to or on behalf of its employees or contractors.
- b. It is understood that LAD is recognized as a tax-exempt organization under federal and state law. As such, it is exempt from state and federal sales and use taxes and from certain other excise or services taxes on goods and services used in furtherance of its exempt purpose (the "Tax Benefits"). In the event that NSI is authorized by LAD to purchase goods or services on behalf of LAD as part of its provision of the Services, NSI will use its best efforts to structure relationships with third parties pursuant to this Agreement so LAD receives the appropriate Tax Benefits of its tax-exempt status with respect to items and services provided to or for the benefit of LAD by such third parties. LAD shall be responsible for paying any personal property or use taxes due on or with respect to any property owned by LAD or purchased in its name. Upon request, LAD will provide NSI with a copy of its Tax Exempt certificate or similar document proving its tax exempt status.

6. **INSURANCE:** At all times during the term of this Agreement, NSI shall obtain and maintain general liability and such other insurance or programs of self-insurance with such terms and limits of liability as are reasonably satisfactory to LAD, including but not limited to automobile liability insurance covering a NSI employee's use of a vehicle while performing services under this Agreement; employee dishonesty (fidelity) and computer crime coverage (for losses arising out of or in connection with any fraudulent or dishonest acts committed by a NSI employee, agents or contractors, acting alone or in collusion with others).

7. **WORKERS' COMPENSATION:**

- a. LAD shall have no responsibility to provide NSI, its employees, contractors or agents with workers' compensation insurance or protections. NSI shall also maintain appropriate worker's compensation insurance coverage for all NSI employees assigned to work under this Agreement, and NSI shall also be responsible for assuring that all contractors are similarly protected under such insurance. All policies required of NSI hereunder shall name LAD as an additional insured with respect to acts of NSI and its employees, representatives and contractors. Upon request, NSI shall promptly provide LAD with its coverage limits

and evidence thereof, and proof that LAD is a named insured on such policies of NSI.

- b. NSI waives any right to recover from LAD the costs of, and/or damages from, any injuries that NSI, its employees, agents, or contractors may sustain while performing Services ("Injuries"). NSI shall indemnify, defend and hold LAD harmless from any loss and/or liability arising or resulting from any and all threatened or actual claims, suits, actions, proceedings, liabilities, costs, expenses, damages or fees (including attorney's fees) arising from or relating to alleged or actual Injuries.

8. **EDUCATION AND TRAINING:** LAD will provide NSI with ongoing professional development and training deemed necessary and appropriate to ensure NSI's performance under this Agreement. Requests for training shall be submitted to the President and CEO for approval. LAD will pay in advance, or provide reimbursement to NSI, for all training courses taken.

9. **EXPENSES:** LAD shall reimburse NSI for all reasonable and necessary LAD-related travel expenses, as described in Exhibit B.

10. **CONFLICTS OF INTEREST:** NSI shall immediately disclose any outside activities or interests, including ownership or participation in the development of any prior, current or future inventions, that conflict, or may conflict, with the interests of LAD.

11. **WORK PRODUCT OWNERSHIP:** NSI and/or its employees, agents and contractors shall, and hereby do, assign and transfer to LAD all right, title and interest in and to any copyrightable works, ideas, concepts, discoveries, inventions, methods, processes, patents, products, improvements, modifications or other information (collectively, "Work Product") invented, authored, developed or otherwise created in whole or in part by NSI or its employees, agents and contractors in connection with the performance Services. Any Work Product protected by copyright is "work for hire," as defined in the Copyright Act. Upon request, NSI shall sign any and all documents necessary to confirm or perfect the exclusive ownership of LAD of the Work Product. NSI shall ensure that NSI's employees, agents and contractors execute agreements sufficient to effect the assignment and transfers herein prior to their providing services to LAD.

12. **DISCLOSURE OF INFORMATION:**

- a. Neither NSI nor its employees, agents, or contractors, will at any time or in any manner, directly or indirectly, use any information that is owned by, or proprietary to LAD and/or its clients (collectively, "Information") for any purpose other than the provision of Services hereunder; or divulge, disclose, or communicate in any manner, any Information to any other party without the prior written consent of

LAD. Further, NSI, its employees, agents, or contractors, shall protect the information and treat it as strictly confidential. A violation of this Section shall result in immediate termination of this Agreement. This Section shall continue in effect after the termination of this Agreement.

- b. Upon termination of this Agreement, NSI shall return all records, notes, documents, LAD equipment, and other items that were used, created or controlled by NSI during the term of this Agreement. Further, NSI recognizes that LAD has and maintains ownership and control of all information.
- c. If NSI is given access, whether on-site or through remote facilities, to any LAD computer or electronic data storage system in order for NSI to accomplish the Services and other services called for in this Agreement, NSI shall limit such access and use solely to perform such services within the scope of this Agreement and shall not access or attempt to access any computer system, electronic file, software or other electronic services other than those specifically required to accomplish the Services required under this Agreement. NSI shall limit such access to those of its employees, contractors and agents whom LAD has authorized in writing to have such access in connection with this Agreement, and shall strictly follow all LAD's security rules and procedures for use of LAD's electronic resources. All user identification numbers and passwords disclosed to NSI and any information obtained by NSI as a result of NSI's access to and use of LAD's computer and electronic data storage systems shall be deemed to be, and shall be treated as, information under applicable provisions of this Agreement. NSI agrees to cooperate with LAD in the investigation of any apparent unauthorized access by NSI to LAD's computer or electronic data storage systems or unauthorized release of Information by NSI.

13. EFFECT OF TERMINATION:

- a. Commencing six (6) months prior to expiration of the Term or for six (6) months after termination of this Agreement for any reason other than the non-payment of uncontested fees by LAD, NSI shall, upon the written request of LAD, reasonably cooperate with LAD in the orderly transfer of NSI's obligations under this Agreement ("Transition Services") and shall use its best efforts to ensure that such transfer does not result in a material adverse effect on the information systems and business operations of LAD. NSI will cooperate with LAD, and its designees, and provide the assistance reasonably requested by LAD or its designees, to allow LAD to continue without material interruption or adverse effect and to facilitate the orderly transfer of responsibility for the Services then being provided by NSI to LAD or its designees, including the following: continuing to perform any or all Services currently being performed by NSI, developing, with the assistance of LAD or its designees, a plan for the transition of the Services then being performed by NSI to LAD or its designees, and providing training for personnel of LAD or its

designees in the performance of Services then being performed; provided, however, that any Transition Services that are not Services shall be billed by NSI, and paid by LAD, at NSI's then-prevailing rates for such services. In addition and in furtherance of the foregoing, NSI shall, if so requested by LAD, continue to provide Services, at the then current rate hereunder as provided for herein, and for a period not exceeding six months following the date of termination, the then current level of Services. In addition, NSI shall, if so requested by LAD, provide additional personnel at NSI's then prevailing hourly rates.

- b. If the nature of any NSI breach of this Agreement leading to termination by LAD is inconsistent with the provision, in LAD's reasonable discretion, of Transition Services, then NSI shall reimburse LAD for all internal and third-party costs, fees and expenses associated with the transition from NSI to another service provider.
- c. NSI shall return to LAD all LAD-owned hardware, software and LAD data upon termination or expiration of this Agreement, or to the extent such hardware, software, and data is used to perform Transition Services, upon the termination of such services. Further, LAD may, at its discretion, offer to employ or retain any employees or contractors of NSI who provided services to NSI under this Agreement to work for LAD after the termination of this Agreement.
- d. Articles 6 (until the statute of limitations has run on all possible claims arising herefrom), 7(b) and 11-19 shall survive the termination or expiration of this Agreement.

14. **NOTICES:** All notices required or permitted under this Agreement shall be in writing and shall be deemed delivered when delivered in person or deposited in the United States mail, postage prepaid, addressed to:

Deierdre L. Weir, President and CEO
Legal Aid and Defender Association, Inc.
613 Abbott Street, 6th Floor
Detroit, Michigan 48226-1348

Mark S. Montgomery, Owner
MSM Networking Solutions
NSI Management Services, Inc.
P.O. Box 31-2572
Detroit, Michigan 48226

Either party shall provide written notice of a change of address.

15. REPRESENTATIONS AND WARRANTIES AND INDEMINIFICATION:

- a. NSI hereby represents and warrants to LAD as follows:
- i. NSI is a duly organized and validly existing corporation in good standing under the laws of the State of Michigan.
 - ii. NSI has all necessary power and authority to enter into and perform this Agreement and to consummate the transactions contemplated hereby. The execution and delivery by NSI of this Agreement and the consummation by NSI of the transactions contemplated herein constitutes the legal, valid and binding obligation of NSI and is enforceable against NSI in accordance with its terms.
 - iii. The execution, delivery and performance of this Agreement by NSI and the consummation of the transactions contemplated hereby will not (i) conflict with or result in a breach of any provision of the articles of incorporation, bylaws, or any other charter documents of NSI, (ii) result in any conflict with, breach of, or default (or give rise to any right to termination, cancellation or acceleration or loss of any right or benefit) under or require any consent or approval which has not been obtained with respect to any of the terms, conditions or provisions of any material contract or agreement to which NSI is a party, or (iii) violate any order, law, rule or regulation applicable to NSI.
 - iv. NSI and its employees, agents and contractors shall be qualified to perform all of the services hereunder in a timely, competent and professional manner. The Services shall be performed pursuant to the terms of this Agreement and in a competent manner consistent with the highest industry standards. No asset of LAD shall reside on the premises of any shareholder of NSI.
 - v. In performing hereunder, NSI shall abide by any and all laws, regulations and accreditation standards applicable to it.
 - vi. LAD's use of the Work Product shall not violate the rights, including without limitation, patent, copyright or contract rights, of any third party.
 - vii. Neither the Work Product, nor any work delivered to LAD hereunder shall contain any viruses, Trojan horses, trap doors, back doors, Easter eggs, worms, time bombs, cancelbots or other computer programming routines that are intended to damage, detrimentally interfere with, surreptitiously intercept or expropriate any system, data or personal information.

b. NSI shall indemnify, defend and hold LAD harmless from any loss and/or liability arising or resulting from any and all threatened or actual claims, suits, actions, proceedings, liabilities, costs, expenses, damages or fees (including attorney's fees) arising from or relating to NSI's alleged or actual breach of this Agreement, including without limitation, the representations and warranties contained herein.

16. ENTIRE AGREEMENT: This Agreement including its Exhibits contains the entire Agreement of the parties and there are no other representations, warranties, promises or conditions in any other agreement whether oral or written. This Agreement supersedes any prior written or oral agreements between the parties. Any changes and/or modifications to this Agreement shall be effective only with the written approval of the President and CEO.

17. AMENDMENT: This Agreement may be modified or amended only if the amendment is made in writing and is signed by both parties.

18. SEVERABILITY: If any provision of this Agreement shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any such provision of this Agreement is invalid or unenforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.

19. CHOICE OF LAW AND VENUE:

a. This Agreement shall be construed in accordance with and shall be governed by the law of the State of Michigan, without regard to its principles of the conflicts of laws and shall be construed without regard to any presumption or any other rule requiring construction against the Party causing the Agreement to be drafted.

b. With respect to any controversy arising from or related to this Agreement, each party hereby irrevocably submits to the exclusive jurisdiction of the state courts in Wayne County and federal courts in the Eastern District of Michigan, and each party hereby irrevocably agrees that all controversy related to this Agreement will be heard and determined exclusively in such courts and waive any objection to venue therein including without limitation assertions of forum non conveniens. The parties hereby submit to service of process by registered mail or an overnight courier comparable to Federal Express.

IN WITNESS WHEREOF, the parties agree to the foregoing as of the Effective Date.

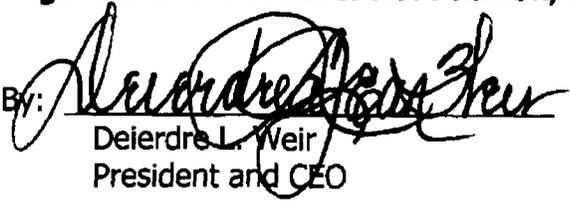
MSM Networking Solutions, Inc.

By: 

Mark S. Montgomery
Owner

Date: 9/24/08

Legal Aid and Defender Association, Inc.

By: 

Deirdre L. Weir
President and CEO

Date: 9/24/2008

Exhibit A

Services

- Supervise activities of MIS staff.
- Identify critical business issues and develop workable solutions for customers as well as MIS associates. These solutions may include enhancements to existing core applications, new software packages, and/or customer programs.
- Define MIS standards and policies in compliance with external auditors.
- Identify, recommend, and manage deployment of "best of breed" hardware and software upgrades and purchases for LAD.
- Prepare and manage the Management Information Systems operating.
- In conjunction with users, prepare, test, and maintain a disaster recovery plan for administrative systems.
- In conjunction with users, develop and maintain documentation, procedures, security, and training of staff members and end users of administrative systems.
- Maintain professional expertise in administrative computing systems and technology.

Exhibit B
Travel Policy

All travel shall be pre-approved, in advance, by the President and CEO. LAD shall reimburse NSI for all reasonable LAD business-related expenses while traveling to conduct LAD business and/or to attend conferences, trainings, or meetings that inure to the benefit of LAD. All expenses for which reimbursement is requested shall be documented on a form approved by LAD. Receipts shall be attached to the form. Meals shall be reimbursed based on actual expense incurred, not to exceed \$30.00 per day. LAD shall arrange all NSI, LAD-related business lodging and air travel. Air travel shall be paid or reimbursed based on a fare no higher than regular coach fare for airfare.

Exhibit C

Consultant Hiring Schedule

| Number of Months | Placement Fee* |
|-------------------------|-----------------------|
| [0 – 6 Months] | [30%] |
| [7 – 12 Months] | [20%] |
| [Over 12 Months] | [10%] |

* Note: Placement fee is stated as a percentage of agreed upon starting salary between consultant and customer.



Main Office
 613 Abbott Street
 Detroit, MI 48226
 313.967.5555 ph
 313.962.0747 fx

Client Service Center
 1240 Third Street
 Detroit, MI 48226
 313.967.5800 ph

Providing High Quality Legal Services to Disadvantaged Residents of Metro Detroit Since 1909.

Deiandre L. Weir
 President & CEO

Minim L. Siefert
 Executive Vice President &
 Chief Defender
 Federal Defender Office

Joan Glenton Howard
 Chief Counsel
 Civil Law Group

Regina Daniels Thomas
 Chief Counsel
 Juvenile Law Group

Donald L. Johnson
 Chief Defender
 State Defender Office

January 17, 2009

David Young
 Supervising Senior Auditor
 Legal Services Corporation
 3333 K Street, NW, 3rd Floor
 Washington, D.C. 20007

Dear Mr. Young:

Please allow this letter to serve as the Legal Aid and Defender Association, Inc. response to two issues raised in the Corporation's audit report.

I. Information Technology Contract

LAD will modify the contract to reflect the payments to MSM-NSI independent contractors. Specifically, the contract will be amended to provide a "not to exceed" cost provision.

II. Travel Payments

It is our understanding that LAD's reviewed process for handling per diem payments made to employees for travel purposes were difficult to trace; i.e. too difficult to match the travel with the payments. LAD has revised the "Per Diem Check Request" to include the following:

- Check number for the payment of the hotel
- Check number for the payment of airfare/transportation cost
- Check number for conference registration fees payment

As a result of these changes, per diem payments will be easily traced to actual travel. It is LAD's position that implementation of this procedure will eliminate the need to have a staff member complete a report upon returning from the meeting or conference.

In a related matter, the draft report issued a recommendation that LAD should revise its accounting manual to require that travel advance funds are recouped

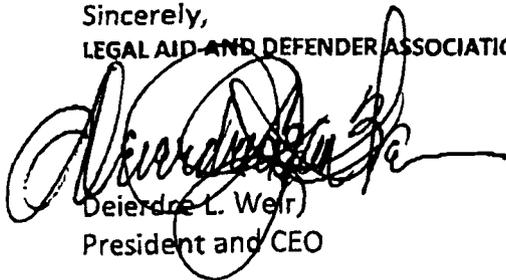
January 17, 2009
LSC Audit Draft Report Response

if the travel for which the funds were advanced does not occur. It should be noted that the manual does address this recommendation.

Further, the draft report makes reference to two fuel purchases with limited supporting documentation. It should be noted that the fuel purchase was based on travel paid through the Skillman Foundation grant, and not the Legal Services Corporation. The expenditure was on a credit card bill that included expenditures for LSC-paid conferences. We failed to bring this matter to the auditor while on-site.

If you have any additional questions or concerns, please feel free to contact me or the Vice President, Finance, Angela Smith.

Sincerely,
LEGAL AID AND DEFENDER ASSOCIATION, INC.



Deirdre L. Weir
President and CEO