



Office of Inspector General
Legal Services Corporation

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Jeffrey E. Schanz

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August 3, 2012

Douglas E. Gershuny
Executive Director
South Jersey Legal Services, Inc.
745 Market Street
Camden, NJ 08102

Dear Mr. Gershuny:

Enclosed is the Office of Inspector General's (OIG) final report of our audit on Selected Internal Controls at South Jersey Legal Services (SJLS). The OIG considers the proposed action to update your program's accounting manual as responsive to the recommendation. However, the recommendation will remain open until the revised accounting manual has been issued and implemented and the OIG is notified in writing.

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

Sincerely,

Jeffrey E. Schanz
Inspector General

Enclosure

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**REPORT ON SELECTED INTERNAL CONTROLS
SOUTH JERSEY LEGAL SERVICES, INC.**

RNO 331020

Report No. AU12-07

August 2012

www.oig.lsc.gov

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INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at South Jersey Legal Services, Inc. (SJLS or grantee) related to specific grantee operations and oversight. The on-site fieldwork was conducted from March 19 through 23, 2012. Documents reviewed pertained to the period January 1, 2011 through December 31, 2011. Our work was conducted at the grantee's administrative office in Camden, New Jersey 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

SJLS is a non-profit corporation organized for the purpose of providing legal assistance in non-criminal proceedings or matters to persons financially unable to afford legal assistance in the southern New Jersey area. The grantee serves the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, and Salem. SJLS services, among others, the following cases: adoption, bankruptcy, community economic development, consumer, custody, dissolution of marriage, domestic violence, education, elder law, employment, health, housing, public benefits, termination of parental rights, wills and estates.

OBJECTIVE

The overall audit objective was to assess the adequacy of selected internal controls in place at SJLS as the controls related to operations and oversight, including program expenditures, fiscal accountability, and compliance with selected LSC regulations. The audit evaluated selected financial and administrative areas and tested the related controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations. In addition, the OIG examined regulatory policies and SJLS processes to assess whether controls were designed in a manner expected to ensure compliance with the LSC Act and the reviewed LSC regulations. However, reaching conclusions regarding compliance with any specific regulation was not an objective of the audit.

SCOPE AND METHODOLOGY

To accomplish the objective, controls over disbursements, salary advances, cost allocation, contracting, internal management reporting and budgeting, and property inventory were reviewed and tested to ensure the controls were adequately designed and operating as intended. Controls over client trust fund accounting were reviewed, but not tested. To obtain an understanding of the internal controls over these areas, policies and procedures were reviewed, including manuals, guidelines, memoranda, and directives setting forth current practices. SJLS officials were interviewed to obtain an understanding of the internal control framework and to determine their knowledge and understanding of the processes in place. 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 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 contained in the LSC Accounting Guide.

To test the controls and the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee reimbursement files and vendor files were reviewed. The sample represented 5.59% of the \$2,410,217 disbursed for expenses other than payroll during the period January 1, 2011 to December 31, 2011 and consisted of 80 transactions totaling \$134,738. To assess the appropriateness of expenditures, we reviewed invoices, vendor lists, and general ledger details. The appropriateness of those expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

To evaluate internal controls over internal management reporting and budgeting, the grantee's system and processes were compared to those detailed in the *Fundamental*

Criteria contained in LSC's Accounting Guide. Controls over salary advances and employee reimbursements were reviewed by examining collective bargaining agreements and personnel policies and practices and testing a judgmentally selected sample of employee reimbursements as part of the disbursement testing. To evaluate controls over client trust fund accounting, we interviewed appropriate program personnel and examined related policies and procedures.

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

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

On-site fieldwork was conducted from March 19 to 23, 2012. Documents reviewed pertained to the period January 1, 2011 to December 31, 2011. Our work was conducted at the grantee's central administrative office located in Camden, New Jersey and at LSC headquarters in Washington, DC.

The 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.

OVERALL EVALUATION

Internal controls reviewed and tested at SJLS were adequate as the controls related to specific grantee operations and oversight, including program expenditures, fiscal accountability, and compliance with selected LSC regulations. However, some controls and practices need to be formalized and documented. Controls over the regulations reviewed were designed in a manner expected to ensure compliance with selected provisions of the LSC Act and regulations.

Grantee disbursements tested were adequately supported, allowable, and appear to be properly allocated to LSC funds. The grantee's current practices involving internal management reporting and budgeting, contracting, cost allocation, salary advances and property inventory were not documented in the Accounting Procedures Manual (APM). However, our test of the controls indicated that these practices were generally in accordance with the *Fundamental Criteria* contained in the LSC Accounting Guide.

Internal controls over compliance with LSC regulations (45 CFR Parts 1610, 1612 and 1617), were adequately designed. Written compliance policies and procedures, including those based on applicable recordkeeping requirements, were in accordance with the respective LSC regulation. Controls over the regulations reviewed were designed in a manner expected to ensure compliance with selected provisions of the LSC Act and regulations.

AUDIT FINDING

Written Policies and Procedures

Operating practices for some areas reviewed were not documented. While SJLS's internal control practices were generally adequate, the grantee's Accounting Procedures Manual (APM) did not contain the written policies and procedures necessary to comply with the *Fundamental Criteria* contained in the LSC Accounting Guide. The APM generally documents the policies and procedures to be followed by SJLS staff in meeting the objectives and criteria of LSC and its other funding sources. However, the APM did not detail the written policies and procedures relating to the cost allocation methodology, contracting, salary advances, property inventory and fixed assets, and management reporting and budgeting. Our tests of SJLS practices used for these activities did not uncover any deficiencies.

SJLS's management stated that drastic budgetary reductions from major funding sources over the past three years have caused the elimination of nearly 50 percent of their workforce. As a result, updates of current policies and procedures have been temporarily shelved. However, at the time of our audit, grantee management stated that after receiving the OIG report, an updated APM will be presented to the Board for approval.

To maintain an adequate internal control structure, each grantee must develop a written accounting manual that describes the specific procedures to be followed by the grantee in complying with the *Fundamental Criteria* contained in the LSC Accounting Guide, which requires that financial controls be established to safeguard program resources. The Government Accountability Office¹ in its guidance on internal control states all transactions and other significant events need to be clearly documented, and that the documentation requirements should appear in management directives, administrative policies, or operating manuals.

An updated and complete APM helps SJLS ensure that proper controls are followed. The APM also serves as a vehicle to communicate controls to all staff and ensures that staff members understand their roles and responsibilities. Without adequate written policies and procedures in place, transactions may be initiated and recorded that violate management intentions, or possibly laws or grant restrictions.

¹ GAO-01-1008G – Internal Control Management and Evaluation Tool (8/01), Page 43.

Recommendation

The Executive Director should update SJLS' Accounting Procedures Manual by preparing written policies and procedures that document current practices in use and include all processes required by LSC's Accounting Guide.

Grantee Management Comments. Grantee management agreed with the recommendation to revise and update its accounting manual. A copy of the SJLS' response to the draft report is incorporated into this report as Appendix I.

OIG Evaluation of Grantee Management Comments. The OIG considers grantee management's planned action to update its accounting manual as responsive to the recommendation. The recommendation will remain open until the OIG receives written notification that the revised accounting manual has been approved and issued.



SOUTH JERSEY LEGAL SERVICES, INC.

DOUGLAS E. GERSHUNY, ESQUIRE
Executive Director

ANN M. GORMAN, ESQUIRE
Deputy Director

KENNETH M. GOLDMAN, ESQUIRE
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July 19, 2012

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Assistant Inspector General for Audit
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333 K Street, NW, 3rd Floor
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RE: Response to Draft Report on Selected Internal Controls
South Jersey Legal Services, Inc. (331020)
Report No. AU12-XX

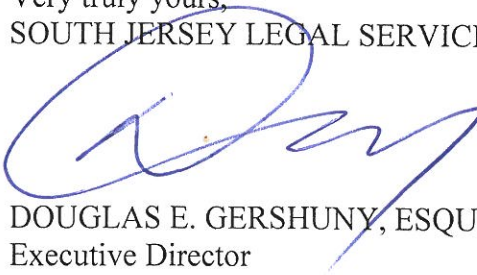
Dear Mr. Merryman:

Thank you for the Draft Report on Selected Internal Controls for South Jersey Legal Services, Inc. dated July 11, 2012.

Pursuant to your recommendation, please note that we intend to revise and update SJLS' accounting manual as noted and present the same to our Board for approval by December 31, 2012.

Thank you for your courtesies.

Very truly yours,
SOUTH JERSEY LEGAL SERVICES, INC.


DOUGLAS E. GERSHUNY, ESQUIRE
Executive Director

Copy: Anthony Ramirez, Audit Team Leader



SOUTH JERSEY LEGAL SERVICES, INC.
Serves Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, and Salem Counties

