Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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MEMORANDUM

TO: James Sandman
President, LSC

FROM: Jeffrey E. Schanz
Inspector General

DATE: August 20, 2015

SUBJECT: Final Report – Audit of the Legal Services Corporation's Hurricane Sandy Disaster Relief Program (Report No. AU 15-10)

Attached is the Office of Inspector General final report on the results of the Audit of the Legal Services Corporation's Hurricane Sandy Disaster Relief Grant Program. The OIG has reviewed your comments to the draft report and they are included as an attachment to the report.

Management agreed with the report and initiated actions to further improve grantee record keeping. The OIG appreciates management's actions to address these issues.

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

Attachment

cc: Lynn Jennings, Vice President
For Grants Management

Janet LaBella, Director
Office of Program Performance

LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL

AUDIT OF
THE LEGAL SERVICES CORPORATION'S
HURRICANE SANDY DISASTER
RELIEF GRANT PROGRAM

Report No. AU 15-10

August 2015

www.oig.lsc.gov

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INTRODUCTION

In April 2013, the Office of Inspector General (OIG) announced plans to conduct an audit over funds provided to the Legal Services Corporation (LSC) for Hurricane Sandy victims in the Disaster Relief Appropriations Act of 2013, P.L. 113-2, 127 Stat. 4 (2013). As part of the process to review the approximately one million dollar appropriation, the OIG would review LSC's and grantees' activities to ensure compliance with the law and that adequate internal controls were established and followed. This is the first of two reports that will be issued on the grant programs for Hurricane Sandy. This report will discuss the process to award and monitor the grants. The second report will focus on the close out process for the grants.

BACKGROUND

In the aftermath of Hurricane Sandy, LSC-funded programs in New York and New Jersey were facing significant disruptions to their operations due to storm-related damage. These programs sustained damage to their offices, endured prolonged power outages, and were operating out of satellite offices when possible. The programs were struggling to provide legal assistance to thousands of victims of the storm and required emergency supplemental funding to address the increased demand for storm-related assistance.

The Legal Services Corporation Hurricane Sandy Disaster Relief Program was set up for LSC grantees located in these federally declared disaster areas. The program was established to assist those who sustained damage from the storm and to fund additional resources for LSC grantees that experienced an increased demand for legal services as a result of the disaster.

The Disaster Relief Appropriations Act, 2013 included $1 million for LSC to provide assistance to low-income people in areas significantly affected by Hurricane Sandy. The Act provided funding "to provide the mobile resources, technology, and disaster coordinators necessary to provide storm-related services to the [LSC] client population and only in the areas significantly affected by Hurricane Sandy." The amount of the appropriation was reduced by $50,000 because of sequestration. The Act required funds to be expended within 24 months following obligation of the funds. Unexpended funds should be returned to LSC immediately after 24 months as required by Public Law 113-2. If included in the approved project budget, and subject to the requirements of 45 CFR Part 1630, LSC allowed expenditures for: personnel; fringe benefits; computer hardware and software and other end-user equipment; telecommunication services and related equipment; consultants, evaluators and other contracted services; travel; rental of office equipment; furniture and space; and supplies.

Awards to grantees were intended to provide the mobile resources, technology, and disaster pro bono volunteer coordinators necessary to fund storm-related legal services to the LSC eligible client population in the areas affected by Hurricane Sandy.

Four grantees received awards. The grantee, amount and purpose for each grant are shown below:

- **Legal Services NYC (LSNYC)** - $436,018

  The grant would be used to purchase technology and make pro bono enhancements. Targeted enhancements to their disaster relief intake system would increase efficiency to serve more clients. In addition, funds would be used to:
  - allow LSNYC to ramp-up Sandy pro bono capacity by hiring a Pro Bono Director;
  - provide training, substantive support and supervision to pro bono and law student volunteers engaged in Sandy relief work; and
  - integrate their systems with Pro Bono Net to secure more pro bono and student volunteer assistance for Sandy victims.

- **Northeast New Jersey Legal Services Corporation (NNJLS)**- $107,338

  The grant would be used to provide a coordinator to facilitate:

  - direct legal representation to 75 eligible clients through the use of private attorneys in NNJLS's Private Attorney Involvement program;
  - legal education through in-house legal clinics to assist those who have hurricane related legal problems but who do not need direct assistance from an attorney; and
  - increased outreach and collaboration with local social services organizations assisting hurricane victims.

  Funds were also provided to enhance the availability of information regarding NNJLS's programs and services through a dedicated "disaster web page" on their new website. The Hurricane Sandy response project would use the services of a full-time Project Coordinator and part-time Web Coordinator.

- **South Jersey Legal Services, Inc. (SJLS)** - $151,300.

  The grant would be used to expand pro bono services. With Disaster Coordination funds, SJLS was to focus on recruitment of new volunteer attorneys who specialize in areas of the law most relevant to clients' post-Sandy needs. These are specializations that are not typically seen in SJLS's practices, including FEMA appeals, insurance disputes, state grant programs for rebuilding or relocation, home repair, title clearance, and contractor fraud. SJLS's Deputy Director was to recruit new volunteers, help them understand SJLS's procedures and the unique challenges of their client population, and provide support as they take their first cases.

- **Ocean-Monmouth Legal Services, Inc. (OMLS)** - $179,385.

  The grant would be used to:

  - hire a contractor to enhance their current website,
  - create a Facebook page, and
  - hire a pro bono coordinator.

  The website was to provide info about the grantee's services, notify residents of available resources, create direct links to disaster related programs in their service area, and to streamline the PAI registration and case acceptance process. In addition, OMLS intended to use the funds to provide a social media presence to expand existing pro bono services and recruit volunteers to assist clients with storm related legal issues. Furthermore, a pro bono coordinator would conduct outreach to the legal community in an effort to recruit new pro bono attorneys to assist clients with storm related issues such as insurance claims, home repair/contractor issues and newly implemented state grant programs. As of February 2015, OMLS is no longer providing legal services and is in the process of dissolution.

OBJECTIVES

The objective of the audit was to determine whether an adequate internal control system was in place to ensure that grantee awards were appropriate and that funds were expended for their intended purpose. In addition, a sub-objective was to ensure that the Hurricane Sandy grant program was in compliance with applicable laws, regulations and LSC policies. To accomplish our objectives, the OIG reviewed the internal control activities over applying the legal framework for the Hurricane Sandy program, awarding grants, monitoring grant performance, terminating grants and complying with laws and regulations. The OIG also reviewed the grantees selected to receive funding under this program to determine if the grants were used and accounted for in accordance with the Act and the grant terms.

AUDIT RESULTS

Overall, the Legal Services Corporation did a commendable job in setting up an internal control system to ensure that awards were appropriate and that funds were expended for the intended purpose. The OIG reviewed the internal control plan to determine if it identified and mitigated risks associated with grant funding. The OIG also reviewed the RFPs, grant assurances and proposals to determine if grants were awarded based on established criteria and were fair and reasonable. Selected grantee expenditures made during the period October 1, 2013 through December 31, 2014 were examined to determine whether they were allowable and reasonable. The examination's background and its scope and methodology are discussed in Appendix I.

Internal Control Plan

We reviewed the internal control plan developed by LSC to implement its portion of the Disaster Relief Appropriations Act of 2013. A review of the internal control plan showed a series of activities that LSC will perform to establish fund accountability, issue a request for proposals, evaluate proposals, issue grant awards and monitor award recipients. The series of events shown from the "LSC Internal Control Plan under the Disaster Relief Appropriations Act of 2013" documented steps fundamental to establishing good internal controls. The internal control plan was a good start in establishing an effective oversight program for Hurricane Sandy Funding. Because more specific details needed to be developed regarding specific controls to ensure that recipients are fairly selected and monitored, and that controls were in place, LSC subsequently developed more specific processes to review the grant award applications and to adequately monitor the progress of this program.

LSC Initiation and Grant Award Process

We reviewed the documents for requirements contained in the law authorizing the grants. The Sandy Disaster Relief Grant notice covered the requirements contained in the law and listed, in general, the types of goods and services that could be purchased with the grant funds. No conflicts with the notice and the legislative intent were found.

We also reviewed the 2013 Disaster Relief Emergency Grant Assurances. The Grant Assurance document for the Hurricane Sandy Disaster Grant contains several requirements that the grantee must comply with to maintain the grant. A summary of the more significant requirements are:

- All recipients are required to submit and follow a budget per the grant award. Deviations to transfer amounts between accounts greater than 20 percent or $5,000, whichever is greater, will require LSC approval.
- Changes to design or scope require LSC approval.
- Funds can only be used for the purpose of this grant. If a reprogramming is requested, funds must still be used only for the purposes delineated in the grant notice.
- All funds must be expended within a 24 month period. Unexpended funds must be returned to LSC.
- All procurements must follow contracting procedures and provide for competition whenever possible.
- Recipient will submit payment requests and required reports within 30 days of the end of each payment period.
- Any materials, videos, websites, and webcasts created with grant funds must display the LSC logo.
- Recipients will sufficiently document and have internal controls in place to track and identify the source and application of Hurricane Sandy Disaster Grant Funds. These methods include separate reporting by line item in the annual audit. Proper timekeeping must also be maintained and tracked,

and costs charged to Hurricane Sandy Disaster Grant funds will be separate from other funds.
- The grant will be revisited at the one-year mark to determine if the grant requirements are being met.

We believe the grant assurances provided a good level of protection for LSC to ensure that grant funds were spent properly.

Lastly, the OIG reviewed LSC's process of evaluating the grant proposals and supplemental information, grant applications, questions from LSC and the responses to those questions. Our evaluation of the process showed that LSC did a good job of evaluating the proposals.

Recipient Award and Oversight

We reviewed the quarterly reports submitted by the grantees that received Hurricane Sandy grants. Each quarterly report was accompanied by a summary of the OPP review of the quarterly report of the grantee activities under the Hurricane Sandy Disaster Grant. The report included summaries of the technology and pro bono activities. LSC management determined if the grantee would receive its quarterly payment based on the review of the quarterly report. We reviewed the first three quarterly reports for each grantee: quarters ending December 2013, March 2014 and June 2014. All grantees issued quarterly reports to OPP. Reports provided reasonable information on the accomplishments from the grants. One grantee, OMLS, was in the process of closing, therefore the third quarter report was not provided to OPP and no further payments were issued by LSC.

Expenditures Review

We reviewed expenditures for three of the four grantees. We did not review OMLS as they were in the process of closing during the time of our review of expenditures. While the expenditures were deemed to be within the approved budgets, the OIG also concluded that documentation for grantee expenditures could be improved. OIG conclusions are based on a review of applicable grantee books, records, internal controls, applicable regulations and guidance.

The following chart lists the budget and expenditures, by budget category, as reported to the OIG. The expenditures represent the period October 1, 2013 through December 31, 2014.

Legal Services NYC (LSNYC)

Line-item	Budget	Expenditures
Personnel	$ 197,209	$ 127,180
Fringe Benefits	78,884	28,761
Travel	3,000	1,377
Equipment Purchase	4,300	-
Equipment Rental	2,170	-
Telecommuniations	37,955	-
Contracts	112,500	67,500
Total All	**$ 436,018**	**$ 224,818**

Northeast New Jersey Legal Services Corporation (NNJLS)

Line-item	Budget	Expenditures
Personnel	$ 79,500	$ 55,131
Fringe Benefits	23,453	14,838
Travel	200	61
Telecommuniations	1,305	-
Software	500	-
Supplies	1,080	35
Other	1,300	243
Total All	**$ 107,338**	**$ 70,309**

South Jersey Legal Services, Inc. (SJLS)

Line-item	Budget	Expenditures
Personnel	$ 106,480	$ 69,472
Fringe Benefits	38,820	20,840
Travel	4,200	2,139
Telecommuniations	1,800	1,125
Professional Dues	-	183
Total All	**$ 151,300**	**$ 93,759**

The majority of the expenses recorded through December 31, 2014 were within the grantee's approved budget. There was one grantee with $183 of expenditures outside the approved budget. The deviation was not greater than 20 percent or $5,000, therefore the grantee was not required to obtain LSC approval.

Labor Distribution

The 2013 Hurricane Sandy Disaster Grant Assurances require the recipient to sufficiently document and have internal controls in place to track and identify the source and application of Hurricane Sandy Disaster Grant funds. These methods should include separate reporting of the grant funds by line item in the annual audit. Proper time and record keeping must be maintained to track all time and costs charged to the Hurricane Sandy Disaster Grant funds separate from other funds. Requirements include following 45 CFR §§1628.3(g) (auditing requirements for one-time and special purpose grants), 1630.3 (standards governing allow ability of costs) and 1635 (timekeeping). Pursuant to LSC regulation 45 CFR § 1630.3(d), Salary and Wages charged directly to LSC grants and contracts must be supported by personnel activity reports. Guidance provided in the Accounting Guide for LSC Recipients indicates that labor hours distributed to projects, contracts and grants are based on time distribution records that identify the total time actually spent by all individuals who charge time directly to projects, contracts and grants.

All of the grantees reviewed charged salaries and benefits to the Hurricane Sandy Disaster grant. We traced the time charges to entries in the grantee's timekeeping system. Overall, time appeared to be reasonably tracked. We did find however, that some employee time was estimated in the timekeeping system. In discussions with grantee management, we believe the time was closely monitored and despite the time being estimated, closely reflected actual time spent for Hurricane Sandy purposes. Associated costs for related time charges were accurately allocated to the grant.

Other Expenditures

For South Jersey Legal Services, we tested six travel transactions that were allocated to the Hurricane Sandy Disaster Relief grant. This represented sixty-three percent of the travel included within the grantee's trial balance. All of the randomly selected six transactions were supported and agreed with the expenses recorded in the general ledger. All travel included reimbursed mileage and tolls.

Legal Services NYC was the only grantee that allocated contract work to the Hurricane Sandy Disaster Relief grant. The OIG tested these contracts for work to be performed and charged to the grantee. The grantee entered into contracts with different contractors to perform technology work. The contracts documented the work to be performed and the invoices related to the contracts supported amounts paid during our audit scope. The invoices did not specify work performed, however, per discussion with LSNYC management, the grantee engages in direct, regular meetings with the contractors regarding their work on the contract and receives an accounting of the hours worked for one contractor which they use to determine reasonableness of payments.

Summary of LSC Management's Comments

LSC management concurred with the report and expressed their appreciation for the review. Management also noted some of the issues discussed in the report and initiated actions with the grantees to improve recordkeeping. Management's comments are attached to the report their entirety.

OIG Evaluation of Management's Comments

We agree with management's actions and appreciate their initiative in contacting the grantees to improve their recordkeeping processes. No further actions are needed from LSC management.

SCOPE AND METHODOLOGY

To accomplish the audit objective, the OIG identified, reviewed and evaluated the process used to solicit, award, and monitor the grants issued under the Disaster Relief Appropriations Act of 2013 (P.L. 113-2). As such, the audit examined evidence supporting the grantees' compliance with grant provisions related to expenditures between the period of October 1, 2013 and December 31, 2014, obtained an understanding of internal controls that were material to the grantees' compliance with the terms and conditions of the grant, and performed other procedures necessary to evaluate the grants. The 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.

To accomplish the objectives of the examination the following steps were performed:

- The appropriateness of expenditures and the existence of adequate supporting documentation were reviewed for each Hurricane Sandy grant. To assess the appropriateness of grantee expenditures, we reviewed invoices, contracts, employee time records, and employee payroll records. The appropriateness of grantee expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

- Internal controls over personnel and contracting expenses were reviewed and tested. Grantee officials were interviewed to obtain an understanding of the internal control framework. Grantee management or staff were interviewed as to their knowledge and understanding of the processes in place.

We did not rely on the use of computer generated data for this audit.

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.

LSC

MEMORANDUM

TO: **John Seeba**
Assistant Inspector General for Audits

FROM: **James J. Sandman**
President

DATE: **August 14, 2015**

SUBJECT: **Audit of the Legal Services Corporation's Hurricane Sandy Disaster Relief Program (Report Number: AU15 – XX)**

Thank you for your audit report on LSC's Hurricane Sandy Disaster Relief grant program. I appreciate the time and care you took in conducting this audit. We are gratified that you found that, overall, LSC did a commendable job in setting up an internal control system to ensure that awards were appropriate and that funds were expended for the intended purposes.

We have taken note of your finding that Legal Services NYC did not obtain detailed invoices from its technology contractors specifying the work performed. We have sent a letter to this grantee advising that it should obtain invoices that specify the work performed by the contractors.

We also noted your finding that some grantees estimated the time spent by their employees under the Sandy grants. We have sent letters to all three grantees (Legal Services NYC, Northeast New Jersey Legal Services Corporation and South Jersey Legal Services) advising them that, in the future, their time records should track the actual time spent on the grant and not merely estimate time for staff activities.

I attach copies of the letters we have sent.

cc: Lynn Jennings
Janet LaBella
John Eidleman

Legal Services Corporation
America's Partner For Equal Justice

August 13, 2015

Douglas Gershuny
Executive Director
South Jersey Legal Services, Inc.
745 Market Street
Camden, New Jersey 08102-1117

Re: South Jersey Legal Services, Inc. - Recipient #: 331020
Sandy Disaster Grant

Dear Mr. Gershuny:

LSC Office of Inspector General has reviewed the activities of the Sandy Disaster Grant grantees and reported to LSC Management that some grantees estimated employees' time spent on the grant. The OIG has reported this to Management. LSC requires that under the Sandy Grant, SJLS should track and report, not estimate, the actual employee time charged to the grant. Please ensure that you do so in the future.

Sincerely,

John Eidleman
Senior Program Counsel
Office of Program Performance

3333 K Street, NW 3rd Floor
Washington, DC 20007-3522
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Legal Services Corporation
America's Partner For Equal Justice

August 13, 2015

John H. Fitzgerald
Executive Director
Northeast New Jersey Legal Services Corporation
574 Summit Avenue
Jersey City, New Jersey 07306-2797

Re: Northeast New Jersey Legal Services Corporation - Recipient #: 331050
Sandy Disaster Grant

Dear Mr. Fitzgerald:

LSC Office of Inspector General has reviewed the activities of the Sandy Disaster Grant grantees and reported to LSC Management that some grantees estimated employees' time spent on the grant. The OIG has reported this to Management. LSC requires that under the Sandy Grant, NNJLS should track and report, not estimate, the actual employee time charged to the grant. Please ensure that you do so in the future.

Sincerely

John Eidleman
Senior Program Counsel
Office of Program Performance

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August 13, 2015

Raun Rasmussen
Executive Director
Legal Services NYC
40 Worth Street, Suite 606
New York, NY 10013-9998

Re: Legal Services NYC - Recipient #: 233100
Sandy Disaster Grant Award

Dear Mr. Rasmussen:

LSC Office of Inspector General has reviewed the Sandy Disaster Grant activities of Legal Services NYC and found two areas that you should address as part of your record keeping.

Legal Services NYC allocated contract work to the Hurricane Sandy Disaster Relief grant and entered into contracts with different contractors for work to fulfill the technology aspect of the grant. The contracts documented the work to be performed and while the invoices supported amounts paid, the invoices did not specify the work performed. Please ensure that future invoices specify the work that is performed by the contractors.

In addition, LSC requires that under the Sandy Grant, Legal Services NYC should track and report, not estimate, the actual employee time charged to the grant. Please ensure that you do so in the future.

Sincerely,

John C. Eidleman
Senior Program Counsel
Office of Program Performance

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