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UNITED STATES GENERAL ACCOUNTING OFFICE

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HUMAN RESOURCES DIVISION

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DECEMBER 23, 1982

B-202116



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The Honorable Joseph G. Minish
House of Representatives

Dear Mr. Minish:

Subject: Information about Essex-Newark Legal Services Project, Inc., New Jersey (GAO/HRD-83-23)

By letter dated March 5, 1982, you requested that we survey the Essex-Newark Legal Services Project, Inc. (ENLSP), a Legal Services Corporation (LSC) grantee, in connection with allegations of mismanagement that had been brought to your attention. On October 6, 1982, we briefed you on the results of our work. Specifically we noted that

- certain allegations were not factual;
- some allegations, while substantiated, had been resolved before our work began; and
- there was not sufficient evidence to judge the merits of other allegations.

As agreed, because of the personal nature of the allegations and the need to maintain the confidentiality of the allegers and to avoid unfairly affecting others, we are not discussing the specific allegations in this report. Rather, presented below is a summary of the problems that have confronted ENLSP and the actions taken or planned to address them.

During our work, we

- examined the Legal Services Corporation Act of 1974 (Public Law 93-355), as amended, LSC regulations, and ENLSP's policies, procedures, records, and internal reports;
- interviewed ENLSP employees and Board of Trustees members, as well as LSC headquarters and regional officials;

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--examined LSC regional office monitoring reports with respect to ENLSP management, operations, and general compliance with LSC grant requirements; and

--examined reports prepared by independent public accountants regarding the project's financial statements and controls.

We did not evaluate all aspects of ENLSP's operations or the quality of legal services it provided. Our review was conducted in accordance with generally accepted government auditing standards.

BACKGROUND

In 1971, the Essex-Newark Legal Services Project was incorporated under New Jersey law as a nonprofit corporation to provide a comprehensive program of free legal services for the poor in Essex County, including the City of Newark.

ENLSP, as an LSC grantee, is subject to the Legal Services Corporation Act of 1974, as amended, and LSC's implementing regulations. ENLSP is monitored and reviewed by LSC's Philadelphia regional office and is required to have an annual financial audit performed and submitted to LSC.

ENLSP is organized into specialty units dealing with housing, Hispanic, consumer, family, public entitlement, senior citizen, and general practice matters. In addition to its central office in Newark, ENLSP has three branches, two in Newark and one in the city of Orange.

As of July 1982, ENLSP employed 55 persons, including attorneys, paralegals, investigators, secretaries, and other clerical personnel. Forty-two of ENLSP's nonmanagement employees are members of the Essex-Newark Legal Services Staff Association, which is affiliated with the National Organization of Legal Services Workers, which in turn is affiliated with the United Auto Workers of America union.

ENLSP's major funding source is annual LSC grants, although substantial funding also is provided by the State of New Jersey under title XX of the Social Security Act. Funding by source for fiscal years 1981 and 1982 was as follows:

| <u>Grantor</u> | <u>1981</u> | <u>1982</u> |
|-----------------------|--------------------|--------------------|
| LSC | \$1,248,000 | \$919,000 |
| New Jersey (title XX) | 467,000 | 440,000 |
| Essex County | <u>63,000</u> | <u>64,000</u> |
| | <u>\$1,778,000</u> | <u>\$1,423,000</u> |

For 1982, the LSC grant was reduced by about 25 percent in line with overall LSC funding reductions. However, ENLSP spent only about \$900,000 of its \$1,248,000 LSC money during 1981, and the remainder was available for use in 1982. Thus, despite the 1982 grant reduction, ENLSP maintained funding levels roughly equivalent to the preceding year.

PAST PROBLEMS

LSC monitoring and independent audit reports we examined showed that during the past few years, ENLSP experienced internal conflicts and problems. For example:

- From mid-1978 to early 1980, the project was beset by recurring conflicts among its Board of Trustees, director, and staff. Relations were characterized by mutual distrust, lack of confidence, and poor communications.
- During 1979, operations were consolidated and relocated. Although the move resulted in substantial improvements in the project's facilities and professional atmosphere, it also resulted in several staff concerns--including difficulty in serving residents outside Newark--and morale problems among the combined staffs.
- In June 1979, reportedly prompted by strong feelings against the director among the ENLSP staff, the staff union struck for 3 weeks. A 2-year contract was agreed to and made retroactive to January 1979. That contract expired at the end of 1980. During 1981, the staff worked without a contract--which was a source of friction between the union and management. A new contract was signed in February 1982, covering December 1981 through December 1982.
- As a condition of ENLSP's 1980 LSC grant, the Board of Trustees was reduced from 42 to 25 members, and selection procedures for Board members were revised. Problems associated with the Board's size, factionalism, poor relations with the director and ENLSP staff, and long,

uncontrolled meetings reportedly inhibited the Board from providing consistent, positive leadership for the program.

--In July 1980, an independent audit report disclosed many deficiencies in ENLSP's fiscal and accounting systems, including lack of an accounting procedures manual and property not properly accounted for. From November 1980 to March 1981, ENLSP functioned without a controller. During the same period an LSC monitoring report noted that ENLSP lacked formalized procedures for establishing and addressing its overall legal services priorities. The LSC monitoring team reported poor leadership and poor communications and relations with the staff. In November 1980, the director, who had served since 1977, resigned.

IMPROVEMENTS MADE OR
UNDERWAY AT ENLSP

During our survey, ENLSP officials, at their own initiative and in response to matters we brought to their attention, undertook various corrective actions. The most recent independent audit report (for the year ended December 31, 1981) noted, with certain exceptions, significant improvements in ENLSP's internal accounting controls. The major exceptions--lack of an accounting procedures manual and lack of a ledger card system for ENLSP's property--were being corrected by ENLSP's controller during our survey.

In addition, the July 1982 regional monitoring report noted marked improvements in ENLSP's management systems, with certain exceptions including the priority-setting area. During our survey, ENLSP developed, and the Board approved, written procedures covering ENLSP's priority-setting process.

Other matters we brought to the attention of ENLSP officials and their corrective actions are described below.

--ENLSP had no standardized approach to supervisory reviews of ongoing cases, which are conducted to insure that quality legal services are being provided. ENLSP officials developed and issued a formal case review policy and plan to develop detailed procedures for conducting such reviews.

--ENLSP's output measurement system reported numbers of cases closed overall, but did not specifically collect or report the numbers of closed cases by operating units,

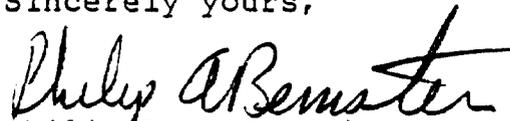
such as housing and general practice. ENLSP officials adjusted the reporting system and are now routinely informed of the output of the various operating units.

- ENLSP had no formalized hiring procedures. ENLSP officials developed and issued written procedures on advertising attorney, secretarial, and clerical positions and conducting applicant interviews.
- ENLSP had no written instructions regarding the outside practice of law by staff attorneys, which is generally prohibited by LSC regulations. During our survey, ENLSP officials developed and issued such instructions to employees.
- Employee personnel files contained inadequate documentation, and certain job descriptions needed updating. ENLSP officials developed standardized forms to document personnel files and revised certain job descriptions.
- Formal employee evaluations were not being prepared on a timely basis, and there was no formal evaluation system for managers. ENLSP officials acted to complete employee evaluations and informed us that they are considering developing evaluation guidelines for management employees.
- ENLSP's certificate of incorporation and bylaws had not been updated to reflect changes in the Board of Trustees' size and composition. At its September 1982 meeting, the Board formally adopted appropriate revisions.

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As requested, we did not obtain written comments on this report. However, ENLSP officials agreed with our observations during a detailed closing conference. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, copies will be sent to other interested parties, including the President of the Legal Services Corporation and the Essex-Newark Board of Trustees, and will be made available to others on request.

Sincerely yours,


Philip A. Bernstein
Director