

**Client Trust Fund Inspection Report**  
**Grantee: Neighborhood Legal Services Association**  
**Recipient No. 339060**

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September 9, 2002

Robert V. Racunas  
Executive Director  
Neighborhood Legal Services Association  
928 Penn Avenue  
Pittsburgh, PA 15222-3799

Recipient No. 339060

Dear Mr. Racunas:

This final report (INP-02-003) provides the results of our inspection of the Neighborhood Legal Services Association's client trust fund accounts. The inspection focused on compliance with record keeping requirements established in the LSC Accounting Guide For LSC Recipients (Accounting Guide).

The on-site inspection was conducted between July 15 through July 17, 2002 at the main office and the McKeesport branch office. Our findings follow:

**MCKEESPORT BRANCH OFFICE**

The McKeesport branch office did not fully comply with the LSC Accounting Guide and internal controls should be improved:

1. **Segregation of Duties.** The office did not maintain an adequate segregation of duties. The CTF custodian performed the majority of receipt and deposit functions including, receiving cash or checks, issuing receipts, preparing the bank deposit slips, depositing the funds received and maintaining the ledger sheets. These duties should be shared between the custodian and other employees to ensure an adequate segregation of duties as outlined in the Accounting Guide for LSC Recipients on pages 86-87.
2. **CTF receipts not deposited to CTF bank account in the same form as received.** On five occasions the CTF custodian deposited cash received in her personal account and wrote checks to NLSA for the amounts. NLSA's bank closed its branch office in McKeesport and the custodian did not want to mail cash to a branch office located in another city. The Because the bank branch office for NLSA's CTF account in McKeesport had been closed and because the closest branch was located in another city, the CTF custodian, to avoid mailing cash on five occasions, placed the cash received into her personal account. She then issued her personal checks in favor of NLSA. These personal checks were subsequently deposited in the NLSA-CTF bank

account. Although the funds were not misused. Sound, sound internal control requires that all receipts (cash, checks or money orders) be deposited directly into the grantee's CTF bank account. This problem should not reoccur because the grantee has opened a bank account in McKeesport. the same form that such payment was received.

3. **Cash not recorded in the general ledger.** On 33 occasions dating to May 17, 1995, cash received was not recorded in the general ledger. Instead, these funds were paid in cash directly to the intended payee (i.e., US Bankruptcy Court). We suggest that the branch office adhere to the procedures that the main office has adopted for the proper receiving, depositing, disbursing and recording of the funds belonging to its clients.
4. **Client not given sequential receipts.** The branch office issued receipts that did not follow the Receipt Book's pre-numbered sequence. The unused or skipped receipts were not voided. We suggest that all skipped, pre-number receipts should be voided.
5. **Cash Deposit Box.** Cash received from client was kept in an unlocked desk drawer. To deter loss or theft, we suggest that all cash deposits be kept in a locked cash box or file cabinet.
6. **Interest earned on the CTF account not transferred to the IOLTA Account.** Interest earned of \$6.87, dating to October 19, 1989, had not been transferred to the IOLTA Account. We suggest the director of the branch office notify the bank to transfer the interest of \$6.87 to the IOLTA Account.

## MAIN OFFICE

The main office, generally complied with the LSC Accounting Guide. However, internal controls should be improved in the following areas:

1. **Outstanding Checks.** Four checks totaling \$1,246 remained outstanding for up to two years. LSC recommends that checks outstanding over 60 days be cancelled. The grantee does not have procedures to follow up when checks remain outstanding for long periods of time. We suggest that the grantee adopt a policy requiring a monthly review of outstanding checks. A letter should be sent to clients that do not cash checks within two months. If clients cannot be located, the outstanding checks should be cancelled in accordance with local banking procedures.
2. **Unclaimed Funds.** The grantee's client trust accounts included \$1,037 in funds that were unclaimed for over seven years. This amount was in twenty client accounts, one of which dated back to 1988. The Pennsylvania Disposition of Abandoned and Unclaimed Property Law requires that abandoned and unclaimed property be escheated to the state within seven years. The grantee has established policies for sending unclaimed funds to the state but they were not followed. We suggest that the grantee establish a process to track unclaimed funds and submit them to the state in accordance with state escheat regulations.
3. **CTF Oversight.** The main office did not maintain adequate oversight of the McKeesport office. Monthly reviews of the McKeesport's bank statements were conducted at the main office but were not

documented. Better oversight may have prevented or detected the problems in the McKeesport office. We suggest that the main office closely monitor the accounting and record keeping of the Client Trust Funds of each branch office ensuring that adopted policies and procedures are implemented and followed.

4. **Interest earned on the CTF account not transferred to the IOLTA Account.** A balance of \$688 in interest earned remained in CTF since August 29, 1996. The grantee should formally ask the bank to transfer the interest to the IOLTA Account.
5. **Daily Deposit of Money Received.** The grantee's policy manual requires that client money be deposited daily. Cash received on June 13, 2002 totaling \$80 was not deposited until June 27, 2002. However, this appears to be an isolated event.

The grantee's Executive Director's comments on the draft report indicated agreement with the inspection's findings and stated that our suggestions were being implemented. The comments provided some clarifying information on the second finding. We modified the finding to reflect the new information.

We reviewed the grantee's comments on the draft report and modified our findings on the McKeesport's CTF used to cash personal checks as indicated above.

Please provide a copy of this report to each member of the Board of Directors of the Neighborhood Legal Services Association.

Sincerely,

Leonard J. Koczur  
Acting Inspector General