

Client Trust Fund Inspection Report
Grantee: Native Hawaiian Legal Corporation
Recipient No. 712023
Report No. IN99-010

FINAL REPORT

September 16, 1999

VIA E-mail
Ms. Mahealani Kamaau
Executive Director
Native Hawaiian Legal Corporation

Dear Ms. Kamaau:

This report (OIG 99-010) provides the results of our inspection of Native Hawaiian Legal Corporation's (grantee) compliance with the LSC Accounting Guide For LSC Recipients (Accounting Guide) with respect to client trust funds. The inspection focused on recipient compliance with record keeping requirements as established in the Accounting Guide. The on-site inspection was conducted May 25-28, 1999, at the central office in Honolulu, Hawaii. The inspection determined that Native Hawaiian Legal Corporation (NHLC) was in general compliance with record keeping requirements as outlined in the LSC Accounting Guide. The inspection identified the following areas where internal controls should be improved:

1. The grantee maintains at least four separate receipt books. Receipts are not issued in any specific order. This practice makes it very difficult to ascertain whether receipts are being issued appropriately, and presents a potential risk for fraud to occur within the client trust account. In addition, receipts are not sent to clients who send fees through the mail. Therefore, we recommend that all current receipt books be destroyed and one book be obtained for the purpose of issuing all client trust receipts in sequential order. We further recommend that receipts for money received through the mail is sent to all clients.
2. Some client trust fund checks have remained outstanding for more than two months. We recommend that the grantee revise current policy to initiate a letter to the client after a check has been outstanding for more than two months. Directory assistance should be consulted, and an Internet search should be made, e.g. through (www.whowhere.lycos.com). In addition, the grantee should consider contacting the State for additional guidance on locating clients. If the client cannot be located, the grantee should follow the Order issued to the Native Hawaiian Legal Corporation on August 6, 1996, by the Third Circuit Court of the State of Hawaii regarding unclaimed client trust funds.
3. The specific reason for disbursements is not always included on the disbursement request form. We suggest that staff attorneys be

reminded to always include the reason for disbursement on the request form. We also suggest that the comptroller check to make sure the reason for disbursement is included before disbursing the funds, as required by the Accounting Guide.

OTHER MATTERS REQUIRING FURTHER REVIEW:

In the course of our review we noted the following potential compliance issues regarding client trust funds maintained by the grantee:

1. The grantee, according to the Executive Director, maintains a "Fee-for-Service" program, supported by LSC funds, whereby legal services are rendered on a one-time basis for "special services that are unavailable at reasonable cost elsewhere." The most common example given was the drafting of land conveyance documents, such as deeds. The funds for these services have previously been deposited into the grantee general fund. According to the Executive Director these funds should have been deposited into the client trust fund account and will be in the future.

This Fee-for-Service arrangement raises two issues. First, whether the grantee is inappropriately charging a fee for legal services supported by LSC funds, and second, even if such a fee-for-service arrangement was appropriate, whether a non-refundable fee should be deposited in the grantee's general fund rather than the client trust fund account.

2. The grantee also has a contract with the Hawaiian State organization of the Office of Hawaiian Affairs to assist persons of Hawaiian ancestry in defense or assertion of their title to property located in the State of Hawaii. This program is referred to as the Land Title Project (LTP). According to an agreement between the two entities, Native Hawaiian Legal Corporation receives grants on a quarterly basis for services rendered under this contract. In addition, there is a non-refundable \$300.00 deposit by the client in advance of any work by the grantee. The deposit is deposited into the grantee's client trust fund account.

Documents obtained from the grantee show that one-half of the amounts recovered from the clients are disbursed to the directors of the Office of Hawaiian Affairs Board of Trustees at the first of each month. The other half is transferred from the grantee client trust fund account to the grantee general account. This practice raises two issues: First, whether the grantee may charge clients a fee for services supported with non-LSC funds, and second, whether a non-refundable fee should be deposited in the grantee's general fund rather than the client trust fund account.

By this report, the above two matters will be referred to LSC management for further review.

Please provide a copy of this report to each member of the board of directors of Native Hawaiian Legal Corporation.

Sincerely,

(Signed)

E.R. Quatrevaux
Inspector General

cc: Danilo Cardona, Acting Vice President for Programs