

Client Trust Fund Inspection Report
Grantee: Legal Aid Society of Hawaii
Recipient No. 912000
Report No. IN99-011

FINAL REPORT

September 30, 1999

VIA E-mail
Victor Geminiani
Executive Director

Dear Mr. Geminiani:

This report (OIG 99-011) provides the results of our inspection of the Legal Aid Society of Hawaii'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 17-24, 1999, at the central office in Honolulu and at the branch offices in Waianae, Oahu and Wailuku, Maui. The inspection determined that Legal Aid Society of Hawaii (LASH) was in noncompliance with the LSC Accounting Guide record keeping requirements and with the [Hawaii State Rules of Professional Conduct](#) regarding the commingling of client trust funds with respect to the following matter:

The grantee maintained funds in the Waianae Branch office client trust fund account that are not client trust funds. The Accounting Guide, Appendix V, and Rule 1.15 of the Hawaii Rules of Professional Responsibility both require that client trust funds be maintained separate from other accounts. Documentation received from the grantee indicated there were only 2 LSC eligible clients with money in the trust fund at the time of the inspection. The majority of the money in the client trust account belonged to an organization known as The Waianae Coast Coalition.

The Coalition is a community organization made up of multiple organizations that sponsor community activities. The Coalition is not a client of the grantee. According to the grantee deputy director, because the Coalition does not have an administrative staff the Coalition entered into an agreement with the grantee on November 30, 1995 to place their funds in the Legal Aid Society of Hawaii's Waianae Branch Office client trust fund account for holding. At this time, the amount of \$3,500.00 was designated to the grantee to cover administrative expenses. The grantee also receives an annual grant from the Coalition.

There were originally ten separate organizations that deposited their money into the grantee client trust fund account. Currently there are three organizations that maintain funds in the grantee client trust fund account. At the time of the inspection, the client trust account was approximately \$37,000. Of this amount, only \$56.50 was client trust funds representing two LSC eligible clients. The managing attorney and paralegal in this branch office administer these funds on LSC time. Time spent on Coalition activities are supposed to be charged to the state, but the inspection revealed that the time was being charged to LSC. The grantee stated that in the future they would not charge Coalition time to LSC funds.

This matter will be referred to LSC management for appropriate follow-up action.

The inspection also identified the following areas where internal controls should be improved:

1. 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, you should consider contacting the State for additional guidance on locating clients. If attempts to locate the client are unsuccessful the money should be returned to the state in accordance with state escheat regulations.
2. The grantee could improve the documentation with respect to client trust fund reconciliation. Some reconciliations do not provide a separate document where the reconciliation is documented and is clear to read. The grantee should consider using a more detailed reconciliation form that would make a review of the documentation easier to read. [The ABA Guide to Lawyer Trust Accounts](#), Part VII Trust Account Forms, has a good example of a detailed bank reconciliation form you may wish to consider.

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. One of the original ten Coalition organizations, The Waianae Coast Business Center is a community-based economic development organization that deposited funds in the grantee client trust fund account in February of 1998. At that time, according to the agreement, the Business Center granted LASH \$9,900.00 for personnel expenses related to the Business Center and the grantee agreed to administer the funds received within their client trust fund account. The Business Center shared office space with the grantee branch office until May 1, 1998, at which time the organization moved to separate office space within the same building as the grantee's branch office. Since July of

1998, the Business Center has had its own checking account and the grantee no longer handled its money. However, the grantee continued to share office equipment and continues to order supplies for the Business Center through the grantee's Office Depot account. The Business Center reimburses the grantee general account for the supplies. In addition, LASH is given funds from three non-LSC sources to cover the salary and fringe benefits of the Business Center Director and continues to assist the Business Center with payroll administration.

It is noted that the Waianae Branch Office space and cost of utilities are donated to the grantee by the town of Waianae.

In addition to the commingling issue, this arrangement raises potential program integrity issues under 45 CFR Part 1610.

2. The grantee and an organization identified as Max Corp entered into a contract with the Trustees of the Legal Services Plan for the Hawaii Teamsters and Allied Workers, Local 996, in November of 1996 to provide legal services to all eligible teamsters members. The eligible members are required to pay a \$25.00 co-payment per matter, which is deposited into a Legal Aid Society of Hawaii client trust fund account. On the first of each month, the co-payments are reimbursed to the Teamsters American Benefit Plan, which serves as the contract administrator for the Teamsters Legal Services Plan. It is our understanding that not all individuals eligible under this plan would be LSC income eligible. Under this contract, LASH handles certain misdemeanor cases such as representation of persons charged with driving under the influence and in arranging and obtaining release on bail. According to the Financial Manager, the cost of administering the contract is fully covered by the Union Legal Services Plan by an annual grant. Funds collected from union clients are documented using the same record keeping procedures applicable to funds acquired from LSC clients.

The inspection revealed that Max Corp is a separate non-profit organization originally set up in 1987 to generate income for LASH through attorney fees awarded in State cases. Max Corp also handles fee generating cases predominately in the area of guardianships and special education. According to the grantee deputy director, Max Corp has not precluded representation in class action cases. Max Corp is housed in the LASH main program office but, according to the grantee, pays the grantee for all of their expenses such as space, supplies and administrative costs. Max Corp reportedly does not produce income for LASH. This raises several issues related to use of non-LSC funds and program integrity under 45 CFR Part 1610.

3. The grantee's Maui Branch Office has a "Fee-for-Service" program called Affordable Lawyers. The program provides low cost legal services to those persons whose income falls between 125% - 250% of the poverty level, the gap group or "working poor", defined by the State of Hawaii Commission on Access to Justice. The branch office has

two client trust accounts, one for the Affordable Lawyers program, and one LSC client trust fund account. Money received from Affordable Lawyer clients is sometimes deposited in the LSC account. The reason given is that with the Affordable Lawyers account only non-refundable fees can be deposited and checks cannot be written on the account. If an Affordable Lawyers case involves both a non-refundable fee and a filing fee, the non-refundable fee would be deposited into the Affordable Lawyers account and the filing fee would be deposited into the LSC client trust fund account.

These 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 Legal Aid Society of Hawaii.

Sincerely,

(Signed)

E.R. Quatrevaux
Inspector General

cc: Danilo Cardona, Acting Vice President for Programs