



April 16, 2003

Thomas J. Matsuda
Executive Director
Legal Aid Services of Oregon
750 SW Taylor, Suite 310
Portland, OR 97205

Recipient No. 938004

Dear Mr. Matsuda:

This final report (INP-03-004) provides the results of our inspection of the Legal Aid Services of Oregon's (LASO) Lawyer Trust 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 from February 10 through February 11, 2003. We reviewed the records of eight of LASO's twelve branch offices. LASO generally complied with the LSC Accounting Guide. The LASO policy manual for the lawyer trust account complies with the recordkeeping and fund processing requirements in the Accounting Guide. However, some of the operating procedures prescribed in the manual were not followed. Improvements are needed in the following areas:

1. **Fund Disbursement.** The branch offices, except the Multnomah County office, did not document lawyers trust accounts disbursement requests. The lawyers trust accounts disbursements were based on the responsible attorney's verbal instruction. We suggest that an authorization form, signed by the requesting attorney, be used to document all disbursements.
2. **Receipts.** The offices did not give clients pre-numbered receipts for funds received. We suggest that each office provide pre-numbered receipts to every client providing funds.
3. **Segregation of Duties.** The branch offices, except Multnomah County, did not maintain an adequate segregation of duties. The Accountant (in the NAPOLS office), the Office Manager (in the Albany, the Oregon City, the Lincoln County, the Woodburn Regional, and the Pendleton offices) and the Regional Director (in the Hillsboro Regional office) performed all the lawyers trust accounts custodian functions. In these offices, the custodian performed all receipt and deposit functions including, receiving cash or checks, issuing receipts, preparing the bank deposit slips, depositing the funds received, receiving the original bank

statement and preparing the bank reconciliation. These duties should be shared between the custodian of the client trust fund and other staff employees to ensure an adequate segregation of duties as outlined in the LSC Accounting Guide 86-87.

4. **Outstanding Checks.** A check for \$1,476 issued on September 25, 2002 for the Native American Program (NAPOLS), remained outstanding on December 31, 2002. Other checks for smaller amounts were outstanding or not cashed by the payee for over 90 days after the check had been issued. The LASO guidelines for Lawyers' Trust Accounts indicate that certain processes are to be conducted by the custodian regarding checks that are over 90 days old. LSC guidelines states that a check over 60 days outstanding should be cancelled. We suggest that LASO change its policy for treating outstanding checks from 90 to 60 days and follow the procedures it has adopted regarding cancellation of checks not cashed after 60 or 90 days. Efforts should be made to contact these payees and replace these checks if necessary.
5. **Lawyers Trust Accounts Oversight.** The main office in Portland could improve oversight of the Lawyers Trust Accounts at the branch offices. As indicated in the first and second findings branch offices generally do not document receipts and disbursements. When the suggestions for these findings are implemented receipts and disbursements will be documented. This documentation should be sent to and reviewed by the Portland office on a monthly basis. In addition, having the bank statements mailed directly to the main office for reconciliation would improve internal controls.

The grantee's comments did not agree with this finding as presented in the draft report. The comments indicated that the Central Office provided an adequate level of oversight for the branch offices. We understand the grantee's position but continue to believe that benefits could be achieved through additional oversight. We modified the finding to reflect this view.

Except as noted in the fifth finding, your comments on the draft report indicated agreement with the inspection's findings. We modified the fourth finding to reflect the clarifying information that you provided. The comments indicated that our suggestions were being implemented, with the exception of those in the fifth finding.

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

Sincerely,



Leonard J. Koczur
Acting Inspector General