USE OF FUNDS FOR PROHIBITED OR RESTRICTED ACTIVITIES
FINANCIAL RELATED AUDIT

Grantee: Community Legal Services, Inc.
Recipient No. 805301

Final Audit Report No. AU96-064G

September 1997
INTRODUCTION

In Public Law 104-134, the 1996 appropriation for the Legal Services Corporation (LSC), Congress imposed restrictions and prohibitions on the types of services LSC grantees may provide to clients and on the methods they may employ in providing those services. The law required the grantees to discontinue servicing certain types of cases immediately. It also required grantees to divest of three other types of cases (class actions, prisoner litigation, and alien representation) no later than July 31, 1996. Congress required LSC to report whether grantees had divested of these cases within the time allotted.

In order to provide the LSC Board of Directors, management, and Congress with an independent assessment of the grantees’ compliance with the new law, the LSC Office of Inspector General (OIG) initiated two types of limited scope audits covering 12 grantees. A performance audit tested: (1) whether grantees had divested of the prohibited cases and were providing only those legal services permitted in restricted cases; and (2) whether the selected grantees had implemented the policies and procedures to ensure that case-related activities were within the new law. A financial related audit was designed to determine whether selected grantees were supporting prohibited or restricted activities within the grantee organization or through alternative organizations. This report presents the results of the financial related audit of Community Legal Services, Inc. (CLS).

BACKGROUND

CLS received $723,705 in Fiscal Year 1996. The office is located in San Jose, California. As of the date of field work, CLS employed, in addition to the Executive Director, approximately three attorneys, three paralegals, and four other staff. CLS is a new entity, having been created in January 1996 to handle cases permissible under LSC laws and regulations.
OBJECTIVES

The specific objectives of the financial related audit were to determine whether:

☐ CLS used funds to pay other organizations to handle prohibited or restricted cases;

☐ current employees, terminated employees, or consultants continued to work on restricted or prohibited cases and received LSC funds for their services after restrictions and prohibitions took effect;

☐ timekeeping records indicated continued involvement in restricted or prohibited cases.

SCOPE AND METHODOLOGY

The financial related audit of CLS was conducted in accordance with generally accepted government auditing standards. Field work was performed in the main office in San Jose from December 4-6, 1996. Audit procedures included interviews with LSC and CLS personnel, review of policies and procedures, and examination of CLS records.

The revised regulation 45 CFR 1610 became effective on June 20, 1997. A component of this rule addresses program integrity as it relates to independence from another entity. This new rule and its application were beyond the scope of this audit.

FINDINGS AND RECOMMENDATIONS

With regard to the specific objectives detailed above, we provide the following findings.

☐ We found no evidence that CLS used funds to pay other organizations to handle prohibited or restricted cases. However, as described below, during the course of our fieldwork, we came across a condition that we believe to be a weakness in the internal control system.

FINDING 1 — CLS did not have a written policy and procedure governing consultant contracts.

A properly designed and implemented internal control system over disbursements ensures proper expenditures and would include written procedures to be adhered to in contracting out for services.

RECOMMENDATION

CLS should develop and implement a written policy and procedure to govern consultant contracts.
We found no evidence that current employees, terminated employees, or consultants continued to work on restricted or prohibited cases and received LSC funds for their services after restrictions and prohibitions took effect.

As described below, CLS’ timekeeping system did not comply with LSC regulations. Because CLS was unable to summarize all time by employee, case, matter, activity, legal problem type or time period, we could not determine from the timekeeping records that CLS had no involvement in restricted or prohibited cases.

FINDING 2 — CLS’s timekeeping system did not comply with LSC regulations.

Time records were maintained on three separate systems: a manual time sheet for payroll, an automated scheduling calendar that was used inconsistently, and a client management system that has not been fully implemented. None of the systems, individually or collectively, was capable of producing “…aggregate time record information from the time of implementation on both closed and pending cases by legal problem type…” as required by 45 CFR Part 1635.

CLS indicated that employees had been having difficulty getting the client management system components to work on CLS’ computers. Some staff were also apparently having difficulty converting from other timekeeping systems to the client management system. Although attorneys reportedly recorded time in case files and could reconstruct time per case when necessary, CLS could not easily compile the information required by the LSC regulation and would not be able to summarize all time by employee, case, matter, activity, legal problem type, or time period.

RECOMMENDATION

A single timekeeping system should be used to capture and store time distribution information and support payroll. Until CLS is able to implement this single timekeeping system via computer, employees should immediately begin to record the required information manually (i.e., date, hours worked by case number, matter number, activity number).

GRANTEE MANAGEMENT RESPONSE TO DRAFT AUDIT REPORTS

Grantee management agreed with the finding concerning timekeeping contained in the first draft audit report. After the audit field work, the grantee retroactively entered time information into the client management system for all cases opened in 1996. CLS also obtained upgraded software. A senior CLS attorney has also been assigned to track timekeeping weekly. The complete text of the response is included in Appendix I.

In response to the second draft audit report, grantee management provided a copy of CLS’ consultant contract policy. The policy requires that all contracts for consultants be subject to a bidding process and approval by the executive director. The policy also identified certain types of
contracts that require the approval of the board of directors and the Legal Services Corporation. The complete text of the response is included in Appendix II.
March 20, 1997

FAX to Reginald Brockingham
Office of the Inspector General
Legal Services Corporation
750 1st Street NE
10th Floor
Washington, D.C. 20002-4250

Re: Audit Project 96-064, Financial Related Audit of Community Legal Services, Inc. 805301

Dear Mr. Brockingham:

CLS is in receipt of the draft audit report. CLS agrees with the findings outlined on Page 2 under Findings and Recommendations. In regard to “Management Controls Finding 1 – CLS’s timekeeping system did not comply with LSC regulations” CLS staff states the following:

1. Subsequent to the OIG audit, CLS staff retroactively entered time information recorded manually for all cases opened in 1996 into the CLIENTS software. Staff continue to record time sheets manually.

2. CLS contacted the vendor of the CLIENTS software and relayed your concerns to him. He has provided CLS with upgraded software. In addition, he is consulting with a Silicon Valley computer expert on databases to create a system which provides a single timekeeping system to capture and store time distribution and support payroll. The CLIENTS vendor has indicated that his system meets all the LSC standards as required by 45 CFR part 1635.

3. A senior attorney has been assigned to track the timekeeping on a weekly basis.

Thank you for the opportunity to respond to your query.

Sincerely,

[Signature]
Tamara Dahn
Executive Director
Office of the Inspector General  
Attention: Alexis M. Stowe  
Fax (202) 336-8955  

Re: Fair Housing Cases  

 Dear Mr. Stowe:  

CLS is in receipt of the second draft of the audit report covering the financial-related audit. Please find enclosed a copy of the consultant contract policy of CLS. Please advise me if this policy from the Policies and Procedures manual is what you requested.  

Please contact me if you need additional information.  

Sincerely,  

[Signature]  
Tamara Dahn  
Executive Director
CONTRACT EMPLOYEES/CONSULTANT CONTRACTS

Due to the uncertainty of funding, all employees are subject to contracts for a defined term renewable at the discretion of the executive director and the board of directors of CLS.

In addition, many services which program staff would ordinarily handle will be conducted through consultant contracts or short term contracts for services. All contracts for consultants to the program shall be subject to a search and bidding process, as well as, an interview with the executive director prior to approval and commencement of work. In addition, certain contracts for services require approval of the board of directors and the Legal Services Corporation. These include contracts for audit services, computer services, telephone systems, as well as, any contracts for amounts in excess of $5000.