LSC

**Legal Services Corporation**
Office of Inspector General

March 20, 2003

Anita Santos-Singh
Executive Director
Philadelphia Legal Assistance Center
1424 Chestnut Street, 2nd Floor
Philadelphia, Pennsylvania 19102

Recipient No. 339000

Dear Ms. Santos-Singh:

This final report (INP-03-003) provides the results of our inspection of the Philadelphia Legal Assistance's (PLA) client trust fund (CTF) accounts. The inspection focused on compliance with record keeping requirements established in the LSC Accounting Guide For LSC Recipients (Accounting Guide). Your comments on the draft report have been considered and are addressed in the following findings. Your comments resulted in the deletion of the draft report findings on escheatment of funds and the accounting system deficiency.

The on-site inspection was conducted from October 7 through October 8, 2002. We found that Philadelphia Legal Assistance did not fully comply with the LSC Accounting Guide and that internal controls should be improved. Deficiencies include: untimely adjustments for stale checks, overpaid reimbursements, incomplete bank statement reconciliations, co-mingling of other organizations' funds in the CTF, and several internal control weaknesses. The following details the findings:

1. **Segregation of Duties -** The grantee did not maintain an adequate segregation of duties. The CTF custodian performed the majority of receipt, deposit and disbursement functions including, receiving checks and money orders, preparing the bank deposit slips, preparing the disbursements checks and performing bank statement reconciliations. The custodian also maintained all the accounting records and the stock of blank checks. These duties should be shared among 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. **Bank Statement Reconciliation** - The CTF custodian was unable to reconcile the bank statements with the accounting records. The relatively small difference has existed for several months and is most likely attributable to the untimely accounting for stale checks and overpaid reimbursements We suggest that, when the stale check and overpayment issues are resolved, the CTF custodian consistently perform monthly reconciliations.

750 First Street, NE 11th Floor
Washington, DC 20002-4250
Phone 202.336.8830 Fax 202.336.8955
www.oig.lsc.gov

**3. Co-mingling Client Funds** – The grantee's client trust fund was used by three other legal services organizations, Volunteers for Indigent Program, Homeless Advocacy Project, and Consumer Bankruptcy Assistance. These organizations participated in the grantee's private attorney involvement program. LSC's Accounting Guide precludes using the CTF for other organizations. The grantee needs to stop co-mingling its client trust funds with the funds of other organization's clients.

**4. Refund Overpayments** – Over a five year period, refund payments to several clients were more than they should have been. In these cases, the clients were due a refund because the costs incurred were less than the amount in the clients' accounts. The CTF custodian stated that, during her absence, the back-up staff did not check on account balances before making payments. The CTF custodian subsequently reimbursed the CTF with general grant funds. The reimbursements were recorded in the general ledger but not the subsidiary ledgers. Consequently, the negative balances in the subsidiary records were inaccurate and inconsistent with the general ledger balance. We suggest that the CTF custodian trace all the balances and correct the errors in the subsidiary records.

**5. Security for Collections and Blank Checks** - Checks and money orders received from clients were kept, pending deposit, in a metal box within a file cabinet in the CTF custodian's office. Blank disbursement checks were also in the CTF custodian's office. The office, metal box, and file cabinet were locked, but other staff had access to both the collections and blank checks. Consequently, there was risk of loss or theft. We suggest that collections and blank checks be kept in a locked box or a file cabinet.

**6. Frequency of Deposits** – Deposits, averaging $5,000, were made two to three times per month during the audit period. The LSC Accounting Guide and the grantee's policy require deposits be made no less frequently than weekly. We suggest that deposits be made in accordance with LSC and grantee policy to reduce the risk of loss.

**7. Stale Checks** - The CTF custodian did not promptly void and adjust the accounting records for disbursement checks which had not been cashed. Eleven checks totaling $10,907 remained outstanding for over 60 days. One check for $200 was over two years old. These checks were recorded in the accounting records, distorting both the general and subsidiary ledgers. 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 and the accounting records updated to reflect the cancellation.

**8. Documentation for Disbursements** - The CTF custodian did not provide those authorized to sign checks with a copy of the voucher (requisition) supporting the disbursement. Further, the case attorneys who prepared the vouchers authorizing payments did not sign or initial the vouchers. We suggest that, to improve internal controls, approved supporting documentation accompany check requests and checks for signature. If check maintenance and preparation is reassigned to someone other than the CTF custodian, consideration should be given to allowing the CTF custodian to sign checks.

**9. Pre-numbered receipt forms -** The receipt forms issued to clients were not pre-numbered nor pre-printed. Receipts are accountable documents that should be pre-printed and pre-numbered to guard against embezzlement.

Your comments on the draft report reflect agreement with the most of the findings. We deleted the findings related to escheatment of funds and the accounting system deficiency based on your comments. However, we reiterate our suggestion that you implement improved segregation of duties.

You stated that the change in the Pennsylvania escheatment law from seven to five years was effective January 2003; and that since PLA is in its seventh year of existence, there was no escheat responsibility prior to 2003. Further, you indicated that PLA will escheat to the State of Pennsylvania for a three-year period to reflect the change in the law.

You also stated that the current computer software (One-Write) used for the Client Trust Funds was capable of maintaining a complete subsidiary ledger for each client; and that the receipt numbers were omitted in the printed reports during our review to ease in report production.

Your comments on the segregation of duties findings revealed that you were considering involving other employees in the process, i.e. having another person to make bank deposits. However, the controls you describe for the receipts and disbursements are not sufficient to eliminate the risk of misappropriation or error. We, therefore, encourage you to implement the suggestion and segregate CTF duties among different employees.

Please provide a copy of this report to each member of the Board of Directors of the Philadelphia Legal Assistance Center.

Sincerely,

Leonard J. Kozcur

Leonard J. Kozcur
Acting Inspector General