

**Client Trust Fund Inspection Report**  
**Grantee: California Rural Legal Assistance**  
**Recipient No. 805260**  
**Report No. OIG 00-003**

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FINAL REPORT

February 4, 2000

VIA E-mail  
Mr. Jose R. Padilla  
Executive Director  
California Rural Legal Assistance

Recipient No. 805260

Dear Mr. Padilla:

This report (OIG 00-003) provides the results of our inspection of California Rural Legal Assistance's (grantee) compliance with the LSC Accounting Guide For LSC Recipients (Accounting Guide) with respect to client trust funds. The inspection focused on the recipient's compliance with the record keeping requirements established in the Accounting Guide. The on-site inspection was conducted November 29 through December 9, 1999, at the main office in San Francisco and at the branch offices in Marysville, Santa Rosa, Salinas, and San Luis Obispo, California. The inspection determined that California Rural Legal Assistance was in general compliance with the Accounting Guide. The inspection identified the following areas where internal controls should be improved:

1. The grantee should improve segregation of duties as outlined in the Accounting Guide pages 86-87. The responsibilities of the Directing Legal Secretary should not include all of the following: receiving, opening and reviewing client escrow bank statements, receiving cash or checks, issuing receipts, preparing the bank deposit slips, and depositing money. The branch offices should consider having another staff person share the duties involved with the receipt and deposit of client trust funds, instead of the Directing Legal Secretary performing all of the duties. These changes would help to ensure an adequate segregation of duties as outlined in the LSC Accounting Guide. In addition, we would recommend that the Directing Attorney in each branch office open the escrow account bank statement and review it prior to the reconciliation by the Directing Legal Secretary.
2. The grantee has not been consistently using a Client Trust Disbursement Request form, which would provide for documentation and approval of the disbursement and include a reason for the disbursement and a signed approval from an approving official as required by the Accounting Guide. Prior to the end of this inspection the grantee had already designed such a request form and has

instructed all branch offices to use the form and obtain proper approval before disbursing funds.

3. Current signature cards are not all up to date in the central office, which has oversight for all branch offices. This is especially important since the branch offices receive the escrow account bank statements and prepare the account reconciliations. We suggest the central office maintain current signature cards for all branch offices and make it a policy to update these on a regular basis.
4. The grantee had not escheated unclaimed client trust funds to the state of California as required by state law. Prior to this inspection the grantee requested all branch offices to return unclaimed client trust funds to the central office and escheated all unclaimed funds to the state as of November 1, 1999. In the future, the grantee should include in its directives to the branch offices the specific details for handling unclaimed client trust funds.
5. The current Financial Policies and Procedures Manual did not reflect all current procedures in place and should be updated. The grantee is currently in the process of updating its manual. We suggest the manual also include guidelines for disposal of unclaimed client trust funds and client trust procedures at the branch offices. This manual should be distributed to all branch offices.

Please provide a copy of this report to each member of the board of directors of California Rural Legal Assistance.

Sincerely,

(Signed)

E.R. Quatrevaux  
Inspector General

cc: Danilo Cardona, Acting Vice President for Programs