

Client Trust Fund Inspection Report
Grantee: Legal Services of North Carolina
Recipient No. 634000
Report No. INP 01-004

FINAL REPORT

July 23, 2001

Ms. Melissa Pershing
Executive Director
Legal Services of North Carolina
224 South Dawson Street
Raleigh, North Carolina 27611

Recipient No. 634000

Dear Ms. Pershing:

This report (INP-01-004) provides the results of our inspection of Legal Services of North Carolina's (LSNC) client trust fund accounts at the main office and at the Appalachian Legal Services, Western North Carolina Legal Services, and Legal Services of the Blue Ridge branch offices. 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 April 30 through May 4, 2001. The inspection determined that LSNC generally complied with the LSC Accounting Guide. However, internal controls should be improved in the following areas:

1. The grantee did not escheat all unclaimed client trust funds to the state of North Carolina as required by state law. These funds were from the Farmworkers Legal Services, an organization that LSNC acquired in 1999. LSNC escheated the funds on April 20, 2001, several months after the acquisition. We found no other instances where funds were not escheated as required.

After reviewing your comments we modified the report to state that the funds not escheated were from client trust funds maintained by the Farmworkers Legal Services prior to its acquisition by LSNC. (The comments are attached as Appendix 1).

2. The grantee did not have adequate segregation of duties in the three branch offices visited. The custodian of the client trust fund 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 pages 86-87.

3. The bank signature card for the Legal Services of the Blue Ridge branch office was out of date. We suggest it be promptly updated.
4. Staff attorney's at the Appalachian Legal Services branch office did not sign the Client Trust Account Ledger form when requesting a disbursement. The LSC Accounting Guide requires attorneys to sign disbursement requests. We suggest staff attorneys be reminded that an approving official is required to approve and sign all check request forms.
5. Cash, checks, and money orders were not kept in secure locations in the three branch offices visited. We suggest that the grantee purchase locking cash boxes for the branch offices where money can be kept until it is deposited.

The LSNC comments on the draft report indicated that corrective actions will be taken as we suggested.

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

Sincerely,

(Signed)

Leonard J. Koczur
Acting Inspector General