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Legal Services Corporation

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February 18, 2011

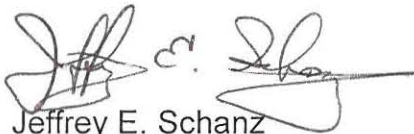
Mr. Jonathan D. Asher
Executive Director
Colorado Legal Services
1905 Sherman Street
Denver, CO 80203

Dear Mr. Asher:

Enclosed is the Office of Inspector General's final report on the results of our audit on Selected Controls at Colorado Legal Services. We have reviewed your response to the recommendations in the draft report and believe your proposed actions adequately address the issues. Recommendations 1 and 3 are closed because corrective actions have already been taken. Recommendations 2, 4, and 5 are open until all stated management actions are taken and the OIG is notified of such in writing.

Thank you and your staff for your courtesy and cooperation during this audit.

Sincerely,



Jeffrey E. Schanz
Inspector General

Enclosure

cc: James Sandman, President
Legal Services Corporation

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**REPORT ON SELECTED INTERNAL
CONTROLS**

**COLORADO LEGAL SERVICES
RNO 706060**

Report No. AU-11-02

February 2011

www.oig.lsc.gov

EXECUTIVE SUMMARY

Audit Process: The Legal Services Corporation (LSC) Office of Inspector General (OIG) assessed the adequacy of selected internal controls in place at Colorado Legal Services (CLS or grantee) related to grantee operations and oversight. Audit work was conducted at the grantee's main office in Denver, Colorado and at LSC headquarters in Washington, DC. The on-site fieldwork was conducted from November 2 through November 6, 2009.

Results in Brief: In general, internal controls reviewed were adequate; however, in four specific areas, controls needed to be strengthened or formalized. Grantee disbursements tested were adequately supported. Internal controls over reimbursements and internal management reporting and budgeting were adequate and adhered to. Internal controls over compliance with specific LSC regulations reviewed were adequate. However, at the time of fieldwork, the grantee did not have an accurately documented cost allocation process in place to adequately ensure proper distribution of indirect costs and non-labor related direct costs among grants. Although adequate written policies and procedures exist concerning Client Trust Fund accounting, the grantee did not follow the policies and procedures contained in its current Accounting Manual. The grantee did not maintain a master inventory list for use in reconciling physical property inventory. The grantee did not have written procedures documenting the arrangements made with employees governing the reimbursement for business use of employee-owned Personal Digital Assistants (PDAs), including cell phones.

Recommendations: The OIG recommends that:

- a cost allocation methodology that properly allocates all costs be implemented and fully documented in the grantee's Accounting Manual;
- the Executive Director ensure, through training and supervisory oversight, that grantee staff follows the Client Trust Fund accounting policies and procedures contained in its Accounting Manual;
- a master inventory list be created containing the fixed assets owned by the grantee with the results reconciled to the accounting records; and
- procedures be implemented and included in the Accounting Manual requiring arrangements made with employees for reimbursement for the business use of personal electronic devices be documented.

Summary of Grantee Comments: Grantee management stated that all OIG recommendations had been acted upon. The grantee stated that a cost allocation methodology that properly allocates all costs has been implemented and will be fully documented in the grantee's Accounting Manual. The Executive Director stated that through extensive staff training and supervisory oversight that the Client Trust Fund accounting procedures will be complied with. The grantee stated that a master inventory list has been created detailing the fixed assets

owned by the grantee and that the results will be reconciled to the accounting records. Finally, grantee management has stated that written procedures documenting employee reimbursement arrangements for the business use of personal cell phones and other wireless devices has been revised and includes a procedure for employee request, and program approval, of cell phone/PDA reimbursement.

OIG Evaluation of Grantee Comments: The grantee's comments are responsive to the issues raised in this report. Recommendations 1 and 3 are considered closed. Recommendations 2, 4 and 5 are considered open until such time the grantee and its Board of Directors have taken the actions described in the response.

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INTRODUCTION

In accordance with the Legal Services Corporation (LSC) Accounting Guide for LSC Recipients (August 1997) (Accounting Guide)¹, Chapter 3, an LSC grantee is required to establish and maintain adequate accounting records and internal control procedures. The Accounting Guide defines internal control as the process put in place by the grantee designed to provide reasonable assurance of achieving the following objectives:

- safeguarding of assets against unauthorized use or disposition;
- reliability of financial information and reporting; and
- compliance with regulations and laws that have a direct and material effect on the program.

The Accounting Guide further provides that each grantee must rely upon its system of internal accounting controls and procedures to adequately address concerns arising from such issues as defalcations and to meet the complete financial information needs of its management.

OBJECTIVE

The overall audit objective was to assess the adequacy of internal controls in place at Colorado Legal Services as the controls related to specific grantee operations and oversight, including program expenditures, fiscal accountability, and compliance with selected LSC regulations. The audit evaluated related financial and administrative areas and tested the applicable controls to ensure that costs were adequately supported and allowed under the LSC Act and LSC regulations. In addition, the OIG examined regulatory policies and grantee processes to assess whether controls were designed in a manner expected to ensure compliance with the LSC Act and the LSC regulations reviewed. However, reaching conclusions regarding the grantee's compliance with any specific regulation was not an objective of the audit.

SCOPE AND METHODOLOGY

To accomplish the objective, controls over disbursements, client trust fund accounting, property inventory, internal management reporting and budgeting, selected LSC regulations, and employee reimbursements were reviewed. To obtain an understanding of the internal controls over these areas, grantee policies and procedures were reviewed, including manuals, guidelines, memoranda, and directives setting forth current grantee practices. Grantee officials were interviewed to obtain an understanding of the internal control framework, and management and staff were interviewed as to their knowledge and understanding of the processes in place. Computer-generated data provided by the grantee was relied on to determine whether

¹ This audit was conducted during a period when the previous LSC Accounting Guide was in effect. The revised Accounting Guide for LSC Recipients (2010 Edition) became effective on August 23, 2010.

entries recorded in computer systems matched the information contained on the source documents. However, the OIG did not test the general or application controls over the computer system.

To test for the appropriateness of expenditures and the existence of adequate supporting documentation, disbursements from a judgmentally selected sample of employee and vendor files were reviewed. The sample was selected from disbursements made during the period January 1, 2009 through October 31, 2009 and consisted of 85 transactions totaling \$167,403. To assess the appropriateness of grantee expenditures, the OIG reviewed invoices, vendor lists, and general ledger details. The appropriateness of grantee expenditures was evaluated on the basis of the grant agreements, applicable laws and regulations, and LSC policy guidance.

To review internal controls over client trust fund accounting, property inventory and internal management reporting and budgeting, the grantee's systems and processes were compared to those detailed in the *Fundamental Criteria of an Accounting and Financial Reporting System (Fundamental Criteria)* contained in the Accounting Guide.

To review internal controls over compliance with specific LSC regulations (45 CFR Parts 1610, 1612 and 1617), written compliance policies and procedures were examined, including those based on applicable LSC mandated recordkeeping requirements; applicable documentation and reports were reviewed; and staff members were interviewed. This allowed the OIG to determine if the controls were designed in a manner to ensure compliance with the provisions of the respective LSC regulation.

This review was limited in scope and not sufficient for expressing an opinion on the entire system of grantee internal controls over financial operations or compliance with LSC regulations.

The on-site fieldwork was conducted from November 2 through November 6, 2009. Documents reviewed pertained to the period January 1, 2009 through October 31, 2009. Our work was conducted at the grantee's central administrative office located in Denver, Colorado and at LSC headquarters in Washington, DC.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The evidence obtained provides that basis.

OVERALL EVALUATION

Internal controls reviewed at Colorado Legal Services were adequate as the controls related to specific grantee operations and oversight, including program expenditures, fiscal accountability, and compliance with LSC regulations. However, some controls need to be strengthened or formalized.

Grantee disbursements tested were adequately supported. The grantee's current practices involving internal management reporting and budgeting were in accordance with the *Fundamental Criteria* contained in the Accounting Guide. Internal controls over employee reimbursements were adequate except as noted in the list below.

The following areas were noted where internal controls need to be strengthened:

- At the time of fieldwork, the cost allocation process in place was not accurately documented to ensure equitable distribution of costs among grants.
- Client trust fund accounting policies and procedures contained in the grantee's Accounting Manual were not followed.
- A master inventory list for use in reconciling physical property inventory was not maintained.
- Written procedures were not developed requiring written agreements and establishing reimbursement processes with employees who use their own Personal Digital Assistants (PDAs) and cell phones for business use.

Internal controls over compliance with LSC regulations (45 CFR Parts 1610, 1612 and 1617), were adequately designed. Written compliance policies and procedures, including those based on applicable recordkeeping requirements, were in accordance with the respective LSC regulation.

AUDIT FINDINGS

Cost Allocation Process

The grantee did not have a cost allocation process in place to adequately ensure appropriate distribution of indirect costs among grants nor properly record non-labor direct costs to specific grants. Also, the grantee's current Accounting Manual did not adequately document the specific cost allocation procedures to be followed in assigning costs to the various grants or describe factors used in the allocation process.

Cost Allocation Methodology. The accounting software used by the grantee did not allow the grantee to allocate indirect and non-labor direct expenses by funding source. Because indirect and non-labor related direct expenses were captured in a holding account and allocated at the end of the year using a predetermined percentage rather than being allocated as expenses were incurred, expenses not allowed by LSC may have been allocated to LSC funds. In addition, allocating non-labor direct costs across all grants does not accurately account for how grant funds are spent.

The grantee recorded indirect expenses into the system by location and expense account, and then prepared and maintained spreadsheets to allocate those expenses to various funding sources. LSC's share of the expenses was allocated manually on an annual basis using a predetermined percentage.

Non-labor related direct expenses were not recorded against a specific grant. Rather, non-labor related direct costs were accumulated with indirect costs and allocated in the same manner as indirect costs on an annual basis.

At the time of fieldwork, the grantee informed the OIG that it had entered into a contract for new accounting software to be installed at the beginning of 2010. The grantee believed that with the new software the cost allocation process would be more effective.

Cost Allocation Methodology Documentation. The grantee's cost allocation system was not adequately documented in the grantee's accounting manual. As a result, the OIG was unable to determine if the system design was adequate or if designed adequately, whether the system was in fact operating as intended. During the review, management was unable to provide documentation on how the 20 percent factor, used to allocate indirect and non-labor costs to LSC funds, was determined, and was unable to provide any explanation as to how the factor was developed. The factor had been in place for many years and its origin had been forgotten or those who developed it were no longer with the program. Unless the allocation process is properly designed, adequately documented, and accurately applied, the grantee cannot be assured that its costs are being allocated to LSC and other grantees in a fair, consistent, and equitable manner.

CLS management provided a written cost allocation document detailing a methodology. The OIG's review of this document revealed that it did not match the current practices of the grantee. CLS management further stated that this allocation process description was included in a proposed revised Accounting Manual. The proposed revised manual has been presented to the Board of Directors but CLS management recommended to the Board that the new manual not be adopted until the new accounting software has been implemented. As explained to the OIG, the proposed written cost allocation description provided by the grantee appears to be adequate for the grantee to maintain an allocation methodology that complies with the Accounting Guide for LSC Recipients Chapter 3, Paragraphs 3-4, 3-5.8, and 3-5.9 and 45 CFR §§1630.3(c)-(g).

Recommendation 1. The Executive Director should implement a cost allocation methodology that properly allocates indirect costs, assigns all direct costs to the appropriate funding source, and ensures that no unallowable costs are charged to LSC funds. [Reference: 45 CFR §§1630.3(c)-(g)]

Management Comment

In 2010, Colorado Legal Services purchased and installed the Sage MIP Fund Accounting System. With the installation of this new accounting software system, CLS can accurately allocate the expenses as they are incurred. As invoices are received, expenses are coded to the correct fund source at that time. Payroll expenses are allocated each month based on the program's time records and requirements of specific grants.

The purpose of CLS' cost allocation plan is to summarize, in writing, the methodology and procedures that CLS will use to allocate costs to various programs, grants, contracts and agreements and to ensure that no unallowable costs are charged to LSC funds. This costs allocation methodology will be fully set forth in the revised CLS Accounting Manual which will be presented to and considered for adoption by the CLS Board of Directors at its next meeting on March 2, 2011. (Cost Allocation Methodology, attached hereto as Attachment I).

Recommendation 2. The Executive Director should fully document the cost allocation process, including an explanation of any factors used to allocate costs, as part of its Accounting Manual. (Reference: 45 CFR §§1630.3(c)-(g) and the Accounting Guide for LSC Recipients, Chapter 3 Paragraphs 3-4, 3-5.8, and 3-5.9)

Management Comment

The cost allocation methodology set forth above will be fully documented in the CLS Accounting Manual which will be presented to and considered for adoption by the CLS Board of Directors at its next meeting on March 2, 2011.

Client Trust Fund Accounting

The grantee does not follow the client trust fund accounting policies and procedures contained in its Accounting Manual. In establishing an adequate internal control structure, each grantee is required by the *Fundamental Criteria* contained in the Accounting Guide to develop policies and procedures to be followed when transacting client trust fund related business.

The grantee's policies and procedures contained in its Accounting Manual compare favorably to the *Fundamental Criteria*. However, these policies and procedures were not being adhered to by the grantee in its Denver office. The exceptions to the written policies and procedures included lack of supervisory approval on disbursement vouchers, absence of case identifying information, and the lack of case closure forms. In addition, the trust fund release forms are not pre-numbered as required by the grantee's Accounting Manual.

Adhering to client trust fund accounting policies and procedures ensures appropriate distribution of funds, prevents loss of client funds, and strengthens controls over the funds.

Recommendation 3. The Executive Director should ensure, through training and adequate supervisory oversight, that grantee staff follows the client trust fund accounting policies and procedures contained in its Accounting Manual.

Management Comment

Consistent with this recommendation, CLS has made minor modifications to its client trust fund procedures, and these will be reflected in the updated CLS Accounting Manual (Client Trust Account Procedures, attached hereto as Attachment II). CLS will conduct a Managers Training in early 2011; at that time, Managing and Supervising Attorneys will be trained on the entire CLS Accounting Manual, including the Client Trust Account Procedures. CLS senior management, including the Executive Director and Controller, will thereafter ensure by thorough and extensive training, and supervisory oversight that these procedures are complied with by all casehandlers and “trust account custodians.” Additionally, the Executive Director will address the Client Trust Account Procedures and compliance issues during monthly management conference calls and by written communications to all program staff.

Property Management

The grantee’s written recordkeeping policies and procedures over its physical inventory of fixed assets are in accordance with the *Fundamental Criteria* contained in the Accounting Guide. However, the grantee does not have a master inventory list for use in reconciling physical property inventory to the general ledger.

The grantee explained that the merger which resulted in the formation of Colorado Legal Services brought about different types of physical inventory records from various offices which were never consolidated. This has resulted in incomplete physical inventory records from the branch offices and the subsequent absence of a master inventory list. While the grantee requires each branch office to send to the main office a list of all equipment in the branch office every 2 years, the grantee does not have a master inventory list. The Accounting Guide for LSC Recipients (Chapter 2, Paragraph 2-2.4) provides that for property control purposes, a physical inventory should be taken and the results reconciled with the property records at least once every 2 years. The Accounting Guide also requires any differences between the physical inventory and the inventory amounts shown in the accounting records to be reconciled.

Adequate physical inventory records help protect the grantee’s assets and help ensure that thefts or losses of property are quickly detected. Adequate property records enable the grantee to fully account for fixed asset purchases and to support property asset balances in its financial statements.

Recommendation 4. The Executive Director should create a master inventory list containing the fixed assets owned by the grantee with the results reconciled to the accounting records.

Management Comment

As mentioned above, CLS has purchased the Sage MIP Fund Accounting System, and in particular, has purchased and installed a fixed asset module. CLS is currently in the final process of loading the listings of all the inventory items reconciled by each office. The data and records have been compiled and CLS anticipates that in early 2011 it will have an accurate and complete inventory containing all fixed assets so that the results may be reconciled to its accounting records.

PDA/Cell Phone Use Policy

For purposes of PDA and cell phone use, the grantee maintains a written policy permitting business use reimbursement to employees under certain circumstances. However, there are no written procedures for documenting the arrangement made with any specific employee governing the reimbursement for business use of their own PDAs or cell phones.

The grantee reimburses certain employees who travel and spend significant amounts of time away from their primary office for the business use of their own PDA or cell phone. The Executive Director, on an annual basis, makes a determination of reasonable reimbursement. The employee is required to supply the grantee with proof of a current cell phone or PDA plan, and a monthly bill, when appropriate.

The agreement between the grantee and the employee regarding the terms of the arrangement is verbal. Consequently, there is no formal written agreement describing the conditions of the arrangement. The grantee maintains a listing of employees receiving this benefit and the expenses covered. The OIG reviewed the list and noted that six individuals were receiving this benefit. The OIG was told that three of these individuals were reimbursed the entire amount of each monthly bill. Unless reimbursement for business use of an employee-owned PDA or cell phone is based on an analysis of business versus personal use, the program may be subsidizing the cost of personal use of PDAs and cell phones.

Recommendation 5. The Executive Director should formulate written procedures documenting employee reimbursement arrangements for the business use of personal cell phones and other wireless devices, and incorporate such procedures into the grantee's Accounting Manual. These procedures should require that only the business use portion of the bill be reimbursed with program funds.

Management Comment

Consistent with this recommendation, CLS recognizes the importance of implementing a procedure for employee request, and program approval, of cell phone/PDA reimbursement. In that regard, therefore, CLS has drafted proposed changes to its “Cell phone/Personal Digital Assistant (PDA) Policy,” which will be presented to the CLS Board of Directors for consideration and approval at its next meeting on March 2, 2011. The revised policy reflects the steps to be undertaken by each employee who requests compensation by CLS for cell phone/PDA use that is required by the employee’s job responsibility. The policy will reference a Request for Cell Phone/PDA Compensation form that the requesting employee must complete. (Cell Phone/PDA Policy, and Request Form, attached hereto as Attachments III and IV). Upon completion of the form, attachment of a cell phone plan or bill, and submissions to the Executive Director, the Executive Director shall approve or deny the request and, to the extent possible, will ensure that only the business use portion of the bill is reimbursed with CLS funds. Once the revised policy and form have been approved by the CLS Board, the policy will be fully incorporated into CLS’ Accounting Manual.

OIG Evaluation of Management Comments

Management comments and actions taken or planned are responsive to the issues raised in this report. The OIG considers Recommendations 1 and 3 closed. Recommendations 2, 4, and 5 are considered open until all stated management actions are taken and the OIG is notified of such in writing.

Colorado Legal Services

APPENDIX I

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January 17, 2011

Ronald D. Merryman
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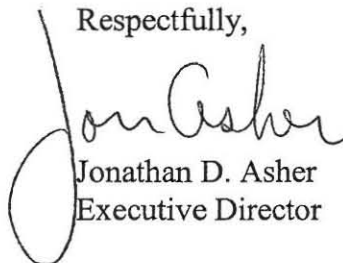
Re: Draft Report on Selected Internal Controls
Recipient 706060

Dear Mr. Merryman:

Thank you for the opportunity to respond to the OIG's Draft Report on Selected Internal Controls. Please find enclosed our Response to each Recommendation set forth in the Draft Report. I have also enclosed Attachments which support the responses.

If you need any additional information, or if I can provide any further clarification, please let me know at your convenience.

Respectfully,


Jonathan D. Asher
Executive Director

JDA/ccg

Enclosures

cc: Anthony M. Ramirez

Response to the Office of the Inspector General Report, November 2010
Grantee 706060
Colorado Legal Services

Recommendation 1. The Executive Director should implement a cost allocation methodology that properly allocates indirect costs to the appropriate funding source, and ensures that no unallowable costs are charged to LSC funds. [Reference: 45 CFR §§1630.3(c)-(g)].

In 2010, Colorado Legal Services purchased and installed the Sage MIP Fund Accounting System. With the installation of this new accounting software system, CLS can accurately allocate the expenses as they are incurred. As invoices are received, expenses are coded to the correct fund source at that time. Payroll expenses are allocated each month based on the program's time records and requirements of specific grants.

The purpose of CLS' cost allocation plan is to summarize, in writing, the methodology and procedures that CLS will use to allocate costs to various programs, grants, contracts and agreements and to ensure that no unallowable costs are charged to LSC funds. This costs allocation methodology will be fully set forth in the revised CLS Accounting Manual which will be presented to and considered for adoption by the CLS Board of Directors at its next meeting on March 2, 2011. (Cost Allocation Methodology, attached hereto as Attachment I).

Recommendation 2. The Executive Director should fully document the cost allocation process, including an explanation of any factors used to allocate costs, as part of its Accounting Manual. (Reference: 45 CFR §§1630.3(c)(g) and the Accounting Guide for LSC Recipients, Chapter 3 Paragraphs 3-4, 3-5.8, and 3-5.9)

The Cost Allocation methodology set forth above will be fully documented in the CLS Accounting Manual which will be presented to and considered for adoption by the CLS Board of Directors at its next meeting on March 2, 2011.

Recommendation 3. The Executive Director should ensure, through training and adequate supervisory oversight, that grantee staff follow the client trust fund accounting policies and procedures contained in its Accounting Manual.

Consistent with this recommendation, CLS has made minor modifications to its client trust fund procedures, and these will be reflected in the updated CLS Accounting Manual (Client Trust Account Procedures, attached hereto as Attachment II). CLS will conduct a Managers Training in early 2011; at that time, Managing and Supervising Attorneys will be trained on the entire CLS Accounting Manual, including the Client Trust Account Procedures. CLS senior management, including the Executive Director and Controller, will thereafter ensure by

thorough and extensive training, and supervisory oversight that these procedures are complied with by all casehandlers and "trust account custodians." Additionally, the Executive Director will address the Client Trust Account Procedures and compliance issues during monthly management conference calls and by written communications to all program staff.

Recommendation 4. The Executive Director should create a master inventory list containing the fixed assets owned by the grantee with the results reconciled to the accounting records.

As mentioned above, CLS has purchased the Sage MIP Fund Accounting System, and in particular, has purchased and installed a fixed asset module. CLS is currently in the final process of loading the listings of all of the inventory items reconciled by each office. The data and records have been compiled and CLS anticipates that in early 2011 it will have an accurate and complete inventory containing all fixed assets so that the results may be reconciled to its accounting records.

Recommendation 5. The Executive Director should formulate written procedures documenting employee reimbursement arrangements for the business use of personal cell phones and other wireless devices, and incorporate such procedures into the grantee's Accounting Manual. These procedures should require that only the business use portion of the bill be reimbursed with program funds.

Consistent with this recommendation, CLS recognizes the importance of implementing a procedure for employee request, and program approval, of cell phone/PDA reimbursement. In that regard, therefore, CLS has drafted proposed changes to its "Cell phone/Personal Digital Assistant (PDA) Policy," which will be presented to the CLS Board of Directors for consideration and approval at its next meeting on March 2, 2011. The revised policy reflects the steps to be undertaken by each employee who requests compensation by CLS for cell phone/PDA use that is required by the employee's job responsibilities. The policy will reference a Request for Cell Phone/PDA Compensation form that the requesting employee must complete. (Cell Phone/PDA Policy, and Request Form, attached hereto as Attachments III and IV). Upon completion of the form, attachment of a cell phone plan or bill, and submission to the Executive Director, the Executive Director shall approve or deny the request and, to the extent possible, will ensure that only the business use portion of the bill is reimbursed with CLS funds. Once the revised policy and form have been approved by the CLS Board, the policy will be fully incorporated into CLS' Accounting Manual.

Colorado Legal Services
Cost Allocation Methodology

OMB Circular A-122, "Cost Principles for Non-Profit Organizations," establishes the principles for determining cost of grants, contracts and other agreements with the Federal Government. CLS' Cost Allocation Plan is based on the Direct Allocation Method. The Direct Allocation Method treats all costs as direct costs except general administration and general expenses.

Direct costs are those that can be identified specifically with a particular final cost objective. Administration and general expenses are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

Only a cost that is allowable will be charged to the LSC grant or other federal grants. This is in accordance with the LSC's statutory provisions, rules, regulations, guidelines, program letters, and instructions and LSC regulation 45 CFR 1630. Unallowable costs will be split among grants for which those expenses are allowable. Costs that are unallowable in accordance with OMB Circular A-122, including alcoholic beverages, bad debts, advertising (other than help-wanted ads), contributions, entertainment, fines and penalties will not be charged to the LSC grant or other federal grants. Lobbying and fundraising costs which are unallowable as an LSC expense, however, may be treated as general expenses allocated to specific programs or other grants for which those expenses are allowable.

As invoices are received, expenses are coded to the correct fund source at that time. Payroll expenses are allocated each month based on the program's time records and the requirements of the grant.

Cost Allocation Methodology

A cost that is specific to that program or grant is charged directly to that program or grant. General expenses that are charged to more than one program or grant are allocated based on the percentage of the amount of income received from each participant. For example, LSC (basic field) \$3,971,198 is temporarily restricted income, Legal Aid Foundation \$1,000,000, and Colorado Lawyers Trust Account Foundation (IOLTA) \$1,950,000 are both unrestricted income. In this example, total cost allocation is: LSC 58%, LAF 14%, COLTAF 28%, equaling 100%. These rates would be used to allocate all allowable expenses, including salaries and benefits.

Distribution Codes were established in MIP for ease of calculation of daily expenses. The Distribution Codes include the following:

General for each office - Use to distribute all non-direct expenses to LSC, IOLTA and LAF grants based on percentage of income.

Rent for each office - Distribute rent to all funding sources that allow its funds to be used for space costs by both percentage and dollar amount.

Telephone for each office - Distribute telephone costs to all funding sources that allow its funds to be used for telephone costs by both percentage and dollar amount.

Depreciation expense - Makes entry to increase expense and accumulated depreciation for each asset by funding source and location.

Match funds or In-kind requirements are applied to the grants and funding sources that allow its funds to be used as a match. LSC funds may be, but usually are not, used as a match for other grants. No other federal grants are used for matching funding. Legal Aid Foundation of Colorado or Colorado Lawyer Trust Account Foundation (COLTAF) funds may be used to match funds or other grants as required by the other grant.

Percentage of LSC interest calculation:

The following percentage calculation is used for calculating the LSC portion of interest. Payments are held in the CLS Investment account. LSC funds are divided by the total receipts for the month. That rate times the total interest earned for the month equals the portion of the interest allocated to LSC each month.

Colorado Legal Services
Client Trust Fund Accounting Procedures

Introduction

Trust accounts are maintained in several of the CLS offices to facilitate and expedite service to its clients. The purpose of the client trust account is to receive client deposits, when possible, for court costs, filing fees, etc. The total of these costs are reflected in the general ledger as both an asset and liability and, therefore, reflect the same amounts. The client trust fund is maintained by a designated custodian who is responsible for the daily processing of receipts and disbursements on behalf of clients.

The program, as required by the Rules of Professional Conduct, maintains appropriate client trust funds in interest-bearing accounts. The program is required by the Rules to deposit short term or nominal sums of client funds into such accounts, the interest from which is automatically distributed to the Colorado Lawyers Trust Account Foundation.

Overview

Each client has a separate account which tracks receipts and disbursements made on his/her behalf. The client trust custodian maintains an active and inactive set of client ledger files which reflects open and closed cases. A separate bank account is used for the trust funds.

When a client deposits money, s/he is asked to sign a "Trust Fund Release Form." The client receives a copy of the form as a receipt for the funds deposited. The form states that any surplus funds which cannot be refunded to the client after one year shall be donated to the CLS litigation fund for the purpose of offsetting other clients' court or litigation costs. The check is then stamped with the appropriate endorsement and deposited to the appropriate checking account.

All blank checks are kept in a locked file cabinet. All checks are pre-numbered with specific numbers assigned. All checks must be accounted for by the CLS Bookkeeper, including cancelled checks. Up to (10) working days are allowed for deposited checks to clear before issuing disbursements. The financial institution on which the check is drawn may also confirm that the check has cleared.

Each withdrawal from a client's account must be accompanied by a "Disbursement Voucher for Trust Accounts Only," which is completed by the casehandler and approved by the supervisor or managing attorney. These forms are kept on file and must accompany each disbursement. The check number, client and reason for disbursement is then recorded in the checkbook, client

ledger and in the Kemps Case Management System. The check is then given to the casehandler or mailed to the client.

If a client is unable to pay for actual court costs or other litigation or related expenses, a request is made for disbursement from the litigation fund. A specific amount is budgeted annually by the program for this purpose. The Director of Advocacy or the Executive Director or his/her other designee must sign the litigation expenditure request form and approve the expense prior to incurring the expense and disbursement of the check.

Specific Procedures

1. A copy of the client release form is provided for every client deposit (cash, check or money order). Cash deposits must be \$100 or less. Amounts in excess of \$100 must be in the form of a check or money order.
2. Separate client ledgers are maintained for open and closed accounts. The closed ledger contains only ledgers with zero balances. If the ledgers shows a balance (either positive or negative), it is not placed in the closed file. The ledgers are recorded in alphabetical order. The Migrant Unit ledger is identified by the settlement name since cases frequently involve multiple clients. Case closing memos must be completed by casehandlers (attorneys and paralegals) prior to closing a case. The case closing form requires that all client trust funds be refunded prior to case closing.
3. Closing notes or notes on the ledger sheet in the check book are also recorded in the Kemps Case Management System by the client trust custodian.
4. Client trust account bank statements are reconciled by the Bookkeeper and/or Assistant Controller and approved by the Controller on a monthly basis. In addition to the bank reconciliation, the active client ledger balances are compared to the bank balance on a monthly basis. The reconciliations are used by the Controller to make monthly adjusting entries to the general ledger. The Controller periodically audits the client trust accounts and reviews the ledger reconciliation and bank statements. The Controller also verifies that necessary forms are complete and properly maintained by the custodian of the client trust account and that receipts and deposits are in order.
5. Any checks remaining outstanding after 60 days are investigated by the Bookkeeper. If the client cannot be located, the custodian must make every reasonable effort to locate the client, so that the funds can be returned. If the funds cannot be retained by CLS, thus, in accordance with Colorado's Unclaimed Property Law, balances in client accounts, which are seven (7) years old or more, will escheat to the Colorado Department of Treasury Unclaimed Property Division.

COLORADO LEGAL SERVICES

Cell Phone/Personal Digital Assistant (PDA)

Policies and Procedures

(Proposed additions to current policy highlighted.)

This Policy specifies when CLS will compensate CLS employees for the use of their personally-owned cell phone or personal digital assistant (PDA).

CLS recognizes that certain CLS employees must use their cell phone or PDA for CLS business. These employees, most often attorneys, advocates, technology support staff and designated management staff, are expected to travel and may spend significant amounts of time away from their primary office. Therefore, in order to promote efficiency in job responsibilities, safety, and accessibility to co-workers, clients, court personnel, and relevant others, the Executive Director or his/her designee is authorized to determine the necessity for a CLS employee to be compensated for the business use of a cell phone or PDA.

In his or her sole discretion, the Executive Director or his/her designee shall determine reasonable compensation for the employee's business use of his/her cell phone or PDA. This determination shall be made on an annual basis, with submission of the employee's request by December 15 of each year, and approval by the Executive Director by January 15 of the subsequent year. The determination shall require the employee to complete a Request for Cell phone/PDA Compensation (attached) and provide the Executive Director or his/her designee with evidence and supporting documentation of a current cell phone or PDA plan, and/or a monthly bill. The Request for Cell phone/PDA Compensation requires the employee to provide justification for CLS compensation of her/his cell phone or PDA, in accordance with her/his job responsibilities. A cost-effective plan shall be used for the cell phones or PDAs.

Request for Cell phone/PDA Compensation Form is attached hereto.

**COLORADO LEGAL SERVICES
REQUEST FOR CELL PHONE/PDA COMPENSATION**

Employee: Fill out this form completely. Attach a copy of a recent cell phone/PDA provider monthly statement or your annual plan, with costs stated. Deliver the completed form to the Executive Director by December 15. You will be informed of approval or denial of this request by January 15 of the subsequent year. If approved, please submit a request for reimbursement to the Accounting Department on a monthly basis.

1. Name of Employee requesting compensation:
2. Cellphone/PDA Service Provider:
3. Total Monthly service costs:
4. Monthly coverage amount requested monthly for business use:
5. How does the use of your cell phone/PDA relate to your existing job responsibilities?
6. What percentage of your currently monthly cell phone/PDA usage is required for work and business use that could not be completed through other currently provided technology tools (desktop or laptop computer, office phone, etc.)?
7. Other information in support of your request for compensation for the business use of a cell phone/PDA compensation?

Name of Participant

Date Submitted

APPROVED:

Executive Director

Date

Amount approved for CLS monthly compensation: _____