



PRISON LAW OFFICE

MEMORANDUM OF ADVISORY COMMENT

VISIT DATE: NOVEMBER 7, 2018

The grant accounting records and the related internal control systems of the Prison Law Office (PLO) were reviewed to determine whether the program is in compliance with the terms and conditions of its grant agreements with the State Bar.

The review was conducted in accordance with requirements of the State Bar's *General Grant Provisions* (the Provisions) and *Standards for Financial Management Systems and Audits* (the Standards), which pertain to financial and compliance audits. The review consisted principally of inquiries of management, evaluation of internal control structures, analytical procedures applied to financial data, and such other procedures as considered necessary to the circumstances.

Based on information gathered from our interviews, document review and tests of PLO's accounting records and related internal control systems, we became aware of matters that are summarized below. **The first two issues below had also been identified during the previous program visit in 2015 and there are significant concerns regarding fiscal oversight by PLO's board.** These comments are intended to lead to meaningful actions that will strengthen the effectiveness of the program's internal control systems and ensure compliance with State Bar requirements.

1. Finding – Organizational Budget: PLO does not prepare an organizational budget.

Recommendation: Based upon best practices and Financial Accounting Standards Board Original Pronouncement (Statement of Financial Accounting Concepts no. 4) and American Bar Association Standards 1.1-3 on Fiscal Matters, we recommend that program staff and board members work to develop an annual organizational budget. This budget should be revised before the start of every fiscal year and compare budgeted income and expense amounts to actual prior year amounts. Actual income and expense amounts should be compared against the budget throughout the year so that unusual amounts can be easily identified, investigated and corrected if necessary.

2. Finding – Bank Reconciliation: The December 2017 bank reconciliation report includes five outstanding checks that are dated July 7, 2016 or earlier; and four outstanding bill payments dated between February 3 and June 8, 2017.

Recommendation: All items outstanding for 6 months (180 days) or more should be investigated on a monthly basis. Checks should be voided and either replaced (if lost) or cancelled along with the invoice (if duplicate or erroneous payment).

3. Finding – Check Signing: The State Bar recently received a refund check from PLO, in excess of \$100,000 for grant overpayments based on an error in PLO's audited financial statements. This check included only Donald Specter's signature even though PLO policy requires a second signature on any checks in excess of \$35,000.

Recommendation: Organization should follow its policy requiring a second signature from a Board member for all checks in excess of \$35,000.

4. Finding – Payroll Discrepancies: A review of personnel files revealed that two out of four payroll files examined did not contain pay rate documentation as required by Section 100.64 of the Standards ("documentation must be maintained to support individual gross earnings.") The two files with documentation did not include an authorizing signature on the Salary Authorization forms from the Executive Director. In addition, the salary paid to one employee was not consistent with the documented authorization.

Recommendation: All personnel files, including those for the Executive Director and temporary employees, should be reviewed to ensure they contain the proper authorization for accurate wage and salary rates. The Executive Director's file should include authorization from the Board of Directors. All other employee compensation changes should be authorized, in writing, by the Executive Director. Employees should receive timely notification of wage rate changes. Procedures should also be developed to uniformly account for all payroll actions in addition to pay rate changes.

5. Finding – Payroll Time Documentation & Employee Reimbursement: One temporary employee timecard was not signed by the employee and showed seven hours worked, but was paid for eight hours. That same temporary employee timecard and paid wages included 24 hours for three days of vacation. However, according to PLO's employee handbook, PLO has a 35 hour work week or seven hour work day. In addition, according to PLO's employee handbook: "Temporary employees are not eligible for employee benefits except those mandated by applicable law." However, a reimbursement of \$254 was paid for that same temporary employee for healthcare related costs and without supporting documentation. There was no supporting documentation but a notation listing "dentist."

Recommendation: PLO should establish an adequate time-reporting system. Section 100.64 of the Standards states that the system must be able to identify employee hours to demonstrate accountability for time to the public. PLO should also obtain supporting documentation for reimbursements. Section 100.63 of the Standards includes: “Each check must be supported by appropriate documentation evidencing the nature and propriety of the expense.” Finally, PLO should also comply with the organization’s employee handbook.

6. Finding – Executive Director Reimbursement: The Executive Director’s reimbursement requests do not appear to be approved by Board Chair, board member or any other person. One reimbursement includes \$190 for “Emily health ins” with no supporting documentation. Reimbursement for cafeteria plan expenses is not included in the PLO Employee Handbook. In addition, reimbursing the cost of health insurance paid by a dependent/family member is not an option in the PLO Employee Handbook.

Recommendation: Section 110.33 of the Standards includes: “Vendors’ invoices, contracts, check requests or other supporting documentation that has been approved by an authorized individual must support all disbursements.” Executive Director reimbursements should be approved by the Board Chair or other designated Board member. Supporting documentation should be required for all reimbursements. The organization should follow its Employee Handbook in terms of benefits provided to all staff.