

**CONFIDENTIAL
MEDIUM SENSITIVITY**

African Canadian Legal Clinic

**Southwest Region and
Specialty Clinics**

Final Report



**LEGAL AID ONTARIO
AIDE JURIDIQUE ONTARIO**

Follow-Up to 2013 PwC Forensic Report

April 2016

**Internal Audit Unit
Strategic Planning and Compliance Division**



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EXECUTIVE SUMMARY

The African Canadian Legal Clinic (ACLC) is a not for profit organization that provides advice and represents African Canadians in a number of legal forums through race based test cases that are likely to result in significant legal precedents. ACLC's head office is located in downtown Toronto. The clinic was opened in July 1994 as a specialty clinic funded by Legal Aid Ontario (LAO) to serve the African Canadian community in Ontario. In 2014/15, ACLC received funding of over \$2.1 million from various funders, with LAO funding of approximately \$790,000. LAO has been funding the ACLC since 1994 and has supported the ACLC with more than \$10 million to date, to assist in the delivery of legal aid services. Through a Memorandum of Understanding, both LAO and ACLC have committed to *“providing high quality legal aid services in a cost effective and efficient manner and demonstrating accountability for the expenditure of public funds.”*

Over the past years LAO has had concerns regarding the management and financial operation of the clinic. In 2009 LAO met with the Chair of the ACLC Board, over concerns of the structure of the Clinic board and activities of the clinic and it's Board. In September 2010, LAO advised that in light of its unresolved concerns about various issues of financial management and other concerns, LAO was invoking Level One of the Dispute Resolution Policy (DRP). Furthermore, LAO advised ACLC that an independent forensic audit of the clinic's finances would be conducted. PricewaterhouseCoopers LLP (“PwC”) was retained by LAO to conduct a forensic review of the ACLC, which commenced in June, 2011. In early 2012, PwC issued a draft forensic report on its findings. Based on the report's findings, LAO requested a further review on certain credit card expenditures incurred by the ACLC. PwC released its report “Forensic Review of the African Canadian Legal Clinic and Addendum” (2013 PwC Forensic Report) in April 2013.

In July 2012, LAO communicated various findings from the draft forensic report to the ACLC Board and invoked Level Two of the DRP. Based on the forensic review findings, and in accordance with the Dispute Resolution Policy, LAO proposed remedial measures to ACLC to address financial management and board governance issues. In early 2014 ACLC was placed in Level Three DRP. In November 2014 LAO's Clinic Committee of the Board of Directors imposed Conditions of a Level Three Remedial Response. One of the conditions imposed, Condition 8, was that ACLC shall implement all the PwC recommendations by a specific date and that Internal Audit Unit (IAU) verifies the implementation. Condition 8 stated:

“Within 90 days of the Clinic Committee's decision, ACLC will implement all PwC Forensic Review recommendations. Compliance will be verified by LAO's Internal Audit and Compliance Division within 15 days thereafter. ACLC will fully co-operate with LAO's Internal Audit and Compliance Division, including providing timely and complete access to all documents and background materials requested, and making staff and ACLC Board members available to meet with Division staff upon request, to confirm compliance with the recommendations.”

IAU's follow-up audit covered 23 recommendations that were directed towards ACLC as proposed in the 2013 PwC Forensic Review Report. The follow-up review covered the period, February 17, 2015 to July 31, 2015 and included no new areas. Further background information including objectives and scope are highlighted in Appendix C.

The PwC recommendations for ACLC were mainly in the areas of Board Governance and Financial Controls. IAU noted that in the majority (78%) of instances, the PwC recommendations had been implemented or fulfilled within the required timeframe by ACLC:

- 11 recommendations were implemented;
- 3 recommendations were not implemented as directed but ACLC had implemented processes that mitigated the risk identified by PwC;
- 4 recommendations were implemented but other matters were noted;
- 5 recommendations were partially implemented.

IAU noted that the ACLC had complied with and met the majority of PwC recommendations which includes:

- PwC had recommended that ACLC should either develop or update 7 policies which covered various business areas. IAU found that all, except one policy, relating to interfund transfers, was developed as recommended by PwC. Based on discussion with the Executive Director (ED), ACLC intends to develop an interfund policy after receiving further support. However in the interim, based upon IAU's discussion with management, a decision was made to prohibit all inter-fund transfers with respect to LAO funding which was confirmed by the IAU's review of the interfund transfer accounts.
- For the sample of expenses reviewed, most payments were supported by appropriate invoices or receipts and approval as required by ACLC's policy. IAU did not observe any instance of overpayment on the credit card that would increase available credit. However, ACLC's credit card policy allows overpayments to avoid having to increase the credit card limit for one-off large transactions (for example capital purchases such as computers and office furniture).
- There were no instances of discretionary bonuses paid from any LAO funds. A policy was developed and implemented to provide monitoring of overtime for ACLC's professional and non-professional employees.

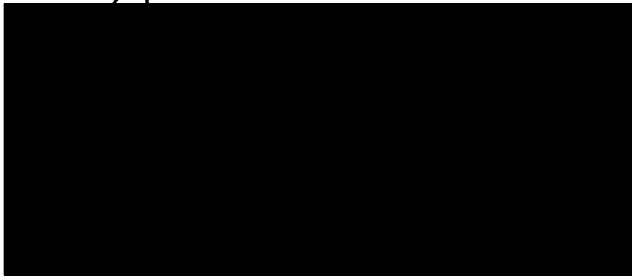
The areas where PwC's recommendations were not fully implemented include:

- IAU noted that 9 (of 30) invoices reviewed showed that expenses were either not in alignment with the recommended meal allowance or did not have a documented business purpose.

- While ACLC had implemented a policy for the monitoring of employee overtime hours, IAU noted 3 instances where earned overtime hours in-lieu of payment, exceeded the monthly maximum allowable hours as per ACLC policy. Per discussions with the ED, the exceptions to the policy were allowed to accommodate heavy workloads.

This report discusses the findings relating to the PwC recommendations that were verified by IAU as partially implemented, or as implemented with other matters noted. This report does not detail the instances of successful implementation; see Appendix B for implementation status for all 23 PwC recommendations

The engagement has been conducted in conformance with the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*.



DETAILED OBSERVATIONS AND RECOMMENDATIONS

The following only discusses PwC recommendations of partial implementation, or when implementation was achieved with other matters noted (Appendix B outlines the implementation status of all 23 PwC recommendations).

Corporate Credit Card

The 2013 PwC Forensic Report had revealed that the ACLC was utilizing a number of corporate credit cards across funds and did not find evidence of the appropriate management oversight of such cards. PwC had been unable to verify the user and/or the business purpose of some credit card transactions.

Credit Card Expenditure

PwC Recommendations (i), (ii): (i) Consider having separate Visa accounts for the General Fund, and other ACLC Funds. (ii) Require the preparation of expense reports for expenditures incurred on the Clinic's Visa, including appropriate review and approval processes.

The Executive Director (ED) confirmed to the Internal Audit Unit (IAU) that there is only one credit card (Visa) in use by ACLC and the ED is the holder and only individual accountable for all purchases made with this card. The credit card is primarily used to make day-to-day purchases and travel arrangements for all ACLC Funds. In limited instances, the ED will provide the credit card to one other staff, the administrative assistant, to make purchases and book travel. The clinic's administrative assistant is responsible for reviewing the credit card statement and identifying which ACLC Funds the transactions relate to. The Office Manager (OM) reconciles the credit card statement to the supporting receipts on a monthly basis and signs off as approval to create the cheques. The ED reviews the invoices and cheques and signs as approval. Two Board members then review the payment package (cheque requisition, invoices and cheques) and sign as approval all the documents including the cheques.

- IAU found that ACLC's credit card policy indicates the existence and use of only one corporate Visa card. The ED indicated that by maintaining a single corporate credit card, she is better able to control and oversee purchases made since the card remains in her possession unless she has authorized it to be used for a specific purchase. Because expense reports are not used, notations are made directly on the monthly credit card statement regarding which fund(s) each expenditure should be allocated to.
- ACLC chooses not to require the formal preparation of expense reports for Visa transactions as only one credit card is in use (as opposed to more than one at the time of the PwC review) which remains in the sole possession of the ED and is only used with her authorization.

- It was noted that for 2 out of 11 (18%) credit card transactions reviewed, a credit card slip was attached as the only support for the expenditure. Page 2 of ACLC's Travel Policy states that, "The Clinic shall require that original receipts (not photocopies) be provided with all claims unless otherwise indicated in this Policy. Credit card slips by themselves are insufficient to support a claim for reimbursement."

Nature of Credit Card Transactions

PwC Recommendation: Further inquiries be made with the Clinic regarding the nature of the transactions identified on the Visa statements.

The IAU reviewed all Visa statements within the period under review and did not identify any unusual transactions except for:

- Purchase of flowers for an Office Manager's (OM) 60th birthday for a total cost of \$129.95 including taxes. LAO's Staff Appreciation Policy allows for gifts of \$10 per year of service up to a maximum of \$300; the OM had been with ACLC for less than 1 year at the time of purchase. ACLC does not have a policy that guides the cost of staff appreciation gifts.
- Similarly, a \$237.30 purchase of flowers for two external consultants who were ill, as stated by the ED, exceeded the \$60 maximum (each) as per LAO's Corporate Gifts of Sympathy policy. ACLC does not have a Gifts of Sympathy Policy that guides such expenditure.

Recommendations

1. Transactions paid by corporate credit card should be supported by original receipts in addition to the credit card payment slip. An original receipt detailing the items purchased, will allow the reviewer to better appraise the nature and business purpose of the expense incurred.
2. All expenses that are allocated to a LAO fund should be made in accordance with the spirit and intent that guides the use of public sector funds. Accordingly, ACLC should develop and implement policies that guide the expenditure of staff appreciation gifts and gifts of sympathy.

Management Response

It is important to note that LAO's Staff Appreciation Policy and Corporate Gifts Policy does not apply to Clinics funded by LAO. However, the development and implementation of policies to guide the Clinic's expenditures for gifts as they relate to staff appreciation and sympathy is a best practice for the efficient use of public funds.

Action Plan:

1. The Office Manager, Executive Director and Board will monitor payments to ensure credit card purchases are supported by original receipts during the review of credit payments as part of the cheque signing process.
2. The General Account has been reimbursed in the amount of \$222.61 for the administrative error made in the payment of staff appreciation and sympathy gifts, which should not have been recorded as solely LAO expenses.
3. Develop and implement a policy to guide gifts for staff appreciation and corporate gifts of sympathy.

Implementation Date:

- Action Item #2 has been completed.
- Action Items #1 and #3 will be completed by the end of Q1 2016-17.

Management Responsible:

Board, Executive Director and Office Manager

Compensatory Time Off

At the time of the PwC review in 2012, ACLC had an accrued liability of over \$155K mainly for unpaid overtime hours. PwC reported that the basis of this accrual was inconsistent with the then ACLC policy on the accumulation and payment for overtime and also inconsistent with the LAO Personnel Policy Guidelines for Clinics.

Policy

PwC Recommendation: Clinic maintains a policy for the provision of days in lieu that is consistent with the LAO Personnel Policy Guidelines for Clinics, as applicable.

LAO's Personnel Policy (prior to 1998) states that *"Professional staff shall not be eligible for compensatory time off, but a Board of Directors, in its discretion, may approve special leave, not to exceed 5 days in a year, for professional staff working exceptional amounts of excess hours."*

The ACLC's Personnel Policy states that *"Compensatory time-off, in lieu of overtime accumulated, may not exceed 14 hours in any given month."* Overtime is tracked by each ACLC staff member and is submitted to the ED for approval on a monthly basis. Typically, overtime is only tracked for meetings and events that occur after hours and does not reflect time spent to catch up on work during non-working hours. The ED's overtime hours are approved by the Clinic Board.

The primary difference between the two policies mentioned above can be summarized as follows:

- LAO's Personnel Policy Guidelines for Clinics states that compensatory time is not to exceed 5 days per year.
- ACLC's Personnel Policy allows up to 14 hours per month; does not explicitly state an annual maximum.

It is important to note that LAO's Personnel Policy specified that the policy was "not mandatory" and only required clinic Boards to adopt personnel policies that were "reasonably consistent" with the guidelines approved by the Clinic Funding Committee. ACLC's policy, although allowing an employee to earn and accumulate a maximum of 24 days in a year which is more than the 5 days allowed by the LAO Guidelines, caps the earning of overtime at 2 days (14 hours) per month. This would mitigate the probability of the excessive accrual seen by PwC in 2012.

- IAU reviewed 23 monthly reconciliations for staff and management overtime hours. The IAU noted 3 instances where the number of earned overtime hours exceeded the maximum allowable of 14 hours, as per ACLC's Personnel Policy. However, the reconciliations were approved by the appropriate personnel. Per discussions with the ED, it was noted that due to extra workload the employees' could not take the compensatory time-off (lieu time) during the required month

which contributed to them exceeding the maximum. Time off during busy periods would impact client case and administrative deadlines. The ED indicated that all employees are required to utilize their lieu time prior to the end of the fiscal year (March 31) in order to avoid excessive accumulation.

- As per ACLC's Personnel Policy (revised March 11, 2014), "All other staff [i.e. outside of management and staff lawyers] must take their compensatory time in the month accumulated". IAU examined 6 monthly overtime reconciliations that related to "other staff" and noted that in all 6 instances, hours accumulated were not taken in the month or within 30 days of being accumulated as required by the policy.

Recommendations

Enforce the clinic's Personnel Policy as it relates to compensatory time in lieu of overtime hours worked:

3. The Clinic's Personnel Policy should be revised to reflect instances of exceptions to the policy and the necessary approvals required for such exceptions.
4. Currently, each employee fills out an overtime tracking sheet on a monthly basis. In order to assist management with enforcement of the provisions of the Clinic's Personnel Policy, it may be more efficient to have an overtime reconciliation worksheet that clearly depicts current earned hours and hours that must be utilized within the time period specified in the clinic's policy.

Management Response:

Action Plan:

1. Revise the Personnel Policy to reflect instances of exceptions to the policy and the necessary approval required for such exceptions.
2. Prepare a quarterly chart that will help management track each staff members' comp time hours earned to date as per the policy, lieu time that remain outstanding at the end of each quarter and the date by which each staff member is expected to take their lieu time.

Implementation Date:
End of Q1 2016-17

Management Responsible:
Executive Director, Office Manager and Board

Interfund Activities

The 2013 PwC Forensic Report raised concerns regarding the comingling of the various ACLC funds which were in contravention of the LAO Funding Agreement with ACLC. Resources must be segregated by restriction and purpose and recorded in the corresponding fund in the Clinic's accounting system. To maintain this distinction, it is important to minimize the flow of resources between funds. Per Appendix L of the PwC Forensic Report, interfund cash movements from the LAO General fund included:

- Distribution of funds received on behalf of other ACLC funds;
- Expense reimbursement to other ACLC funds; and
- Interfund loans from one fund to another.

PwC Recommendations (i), (ii): (i) Maintain a policy for interfund transfers that is consistent with the Funding Agreement. (ii) The policy should include monitoring procedures to ensure that the Clinic is in compliance with the Funding Agreement and its own policies as it relates to interfund transfers, including the requirement for regular reporting of interfund transfers and written approval by the Clinic Board.

The following provides an overview of common types of interfund transactions and IAU's observations with respect to each:

Receipts and Payments *(on behalf of other funds)*

In the normal course of business, funding for multiple funds may be received in a single bank account and must then be transferred to the intended (recipient) fund. Similarly where multiple funds exist within the same entity, there may be shared cost and when such cost is paid by one fund, this (payer) fund must be reimbursed.

For the period reviewed there were receipts and payments among the LAO General Fund, Legal Disbursement Fund and 5 other ACLC funds.

Interfund loans

An interfund loan occurs when one fund provides money to another fund and the amounts provided are required to be repaid. Per the jointly agreed to LAO-ACLC funding agreement paragraph 28, *"The Clinic shall not obtain any funds by way of a loan from a bank, trust company, lending institution, or any other source without prior written approval from LAO."*

Per discussion with the clinic's ED and 2 Board members, the clinic prohibits interfund loans with respect to any LAO funds. For the period reviewed, IAU did not identify any instances of interfund loans regarding the LAO funds.

Interfund transfers

An interfund transfer occurs when there is a flow of resources (i.e. cash, goods or services) without a repayment requirement or without the equivalent flow of assets in return. Per the jointly agreed to LAO-ACLC funding agreement paragraph 5, *“The clinic shall not assign the funding or any part of it, or this Agreement or any part of it, without the prior written consent of LAO”*.

Per discussion with the clinic’s ED and 2 Board members, the Clinic prohibits all interfund transfer involving LAO funds. For the period reviewed, IAU did not identify any instances of interfund transfers involving LAO funds. (Per ACLC’s audited financial statements for year ended March 31, 2015, note 10, there were interfund transfers among 9 other ACLC funds.)

ACLC has not developed a policy for interfund transfers. Per IAU’s discussion with the ED, ACLC required guidance on the content of an acceptable interfund transfer policy. The ED also indicated that ACLC had not been able to find an ‘interfund transfer policy’ either through LAO, other community clinics, financial institutions and other organizations in the not-for-profit sector.

Recommendations

5. ACLC should develop an interfund policy that mandates its operations with regards to interfund receipts and payments, interfund loans and interfund transfers. This policy should be consistent with the LAO-ACLC Funding Agreement and reflect spirit and intent of relevant LAO policies.
6. LAO to provide a sample to ACLC to assist in developing its interfund policy and guidelines on managing interfund activities.

Management Response

The ACLC made inquiries of several sources for examples of an inter-fund policy or guidelines that may assist in the development of an inter-fund policy. The ACLC approached financial institutions, its Auditor, United Way Toronto, United Way of Peel Region, legal clinics, health centres and other agencies in the not-for-profit sector in an effort to obtain a sample policy or guidelines. All of the organizations approached were not familiar with such a policy.

Action Plan:

1. Draft inter-fund policy based on the sample provided by LAO. ACLC’s Auditors, Finance and Finance Committee will review the draft policy and provide their feedback. The Board will review and approve the policy.

Implementation Date:
Within 60 days of LAO providing the ACLC with a sample.

Management Responsible:
Executive Director and Board

Disbursements

The PwC report indicated detailed analysis of cash receipts and payments as seen in the LAO General Fund and in the LAO Legal Disbursement Fund. PwC's analysis included review of supporting documents, payment authorization and compliance to relevant policies.

Meal Allowance

PwC Recommendation: LAO implement requirements for the Clinic Board to monitor the Clinic's compliance with the Clinic Travel, Meal, and Hospitality Expenses Directive.

LAO's Clinic Travel, Meal and Hospitality Directive allows a maximum daily claim of \$40 per day for meals and non-full day maximum claims of \$8.75 for breakfast, \$11.25 for lunch and \$20 for dinner. A total of 30 travel, meals and hospitality expenses were reviewed. The IAU noted that in 4 instances, the daily meals allowance as specified in LAO's Clinic Travel, Meal and Hospitality Directive, as adopted by ACLC, was exceeded.

LAO's Travel, Meal and Hospitality Directive dictates that a business purpose should be documented for each travel, meals and hospitality expense. Documenting the business purpose of the expense helps the reviewer to assess the validity of the expenditure. A total of 30 travel, meals and hospitality expenses were reviewed. Of these, it was noted that 9 did not have an adequately documented business purpose for the expenditure. When inquired about the purpose of these transactions, the ED was able to recollect the business purpose of the expenditure. The purpose of travel, meals and hospitality expenses may not be ascertainable from a review of the receipts or invoices.

The Clinic Travel, Meal and Hospitality Expense Directive, provided by LAO to its funded clinics, does not require the documenting of business purpose and names of individuals benefiting from the expenditure.

Taxi Policy

PwC Recommendation: Implement a policy to provide guidelines with respect to use of taxis by Clinic staff. This policy should be aligned with LAO policy.

For invoices such as Diamond Taxi and Visa, where one invoice or statement is received pertaining to more than one ACLC fund, the support staff will make a notation beside each transaction on the supporting invoice or statement to indicate which ACLC fund the transaction relates to. The Bookkeeper prepares an Excel spreadsheet by vendor to indicate the total amount payable by each ACLC fund to the vendor. The support is photocopied and retained on file for each ACLC fund as required.

The IAU found ACLC to be in compliance of this recommendation except for Point 17 of the ACLC Taxi policy which states that “Administration fees shall not be paid to taxi companies for handling vouchers.” IAU found that ACLC was paying administration fees to the taxi company each month of approximately \$50 for handling vouchers. Note that these costs were being allocated equally across the various funds.

Recommendations

1. ACLC should ensure compliance with the Clinic Travel, Meal and Hospitality Expense Directive, specifically with regards to allowable meals rates.

In the spirit of public sector transparency and accountability we recommend that ACLC consider updating its travel policy to reflect the requirement for documenting business purpose and names of individuals benefiting from expenditures.

2. For expenses allocated to LAO funds, ensure expenditures are reasonably in line with the appropriate clinic policies.

Management Response

PWC’s recommendation to implement a policy for use of taxis has been fully implemented; however, although the ACLC’s Taxi Policy states that administrative fees will not be paid for the handling of vouchers by taxi companies, the ACLC has no control over this cost.

Action Plan:

1. ACLC’s management and Board will closely monitor allowable meal expenses claimed under the Clinic Travel, Meal and Hospitality Expense Directive to ensure compliance.
2. ACLC will modify its travel policy to require documentation of the business purpose the expenditure.
3. Review and amend the Taxi Policy to ensure expenditures are reasonably in line with the policy.

Implementation Date:
By end of Q1 2016-17

Management Responsible:
Executive Director and Board

Other Matters

Discussed below are PwC recommendations that were implemented appropriately but other matters were noted.

Legal Disbursement Policy

PwC Recommendation: Ensure that the Clinic's Disbursement Policy is aligned with the LAO's Clinic Legal Disbursements Policy.

ACLC's revised Legal Disbursement Recovery Policy which was received by LAO in October 2013 covers the following areas:

- Separate legal disbursement account be maintained (i.e. segregated from general);
- Defines what a legal disbursement is and provides examples;
- Sets expense limits: Expenditures above \$500 requires prior written approval of the ED and when greater than \$2,000 of accumulated legal disbursements have been incurred on a file, further disbursements shall require the prior approval of the ED or OM;
- Describes the situations where it would be appropriate to recover costs from clients; and
- The process for staff lawyers to receive reimbursements for legal disbursements.

LAO's Clinic Legal Disbursement Policy is currently being revised. As a result, ACLC's legal disbursement policy could not be compared to LAO's policy.

Expense Documentation

PwC Recommendation: Notations by the Office Manager on invoices reviewed as evidence of approval.

Vendor invoices are received and processed by the administrative staff, who by written notation on the invoice will identify which ACLC fund the invoice relates to. The invoice is then provided to the Office Manager (OM) who reviews the invoice and follows up with the vendor as needed if there are any questions or concerns. After the OM has reviewed and approved the invoice, it is provided to the bookkeeper for entering into QuickBooks accounting system.

Cheque requisitions are prepared manually by the OM or Bookkeeper as required. The account, date and amount are documented in the cheque requisition and supporting documenting is attached. The prepared cheque requisition is then forwarded for approval to the ED and two board members for their review and authorization.

While compliance was achieved by ACLC, we noted an opportunity to improve the payments process, that is, in addition to the notation on the invoices, the date of approval should be documented. A documented date of approval helps to determine whether the expense was authorized prior to actual disbursement.

Documenting the date of approval was not required in the PwC recommendation. It was noted that all 39 expenses sampled were approved but 19 did not have a documented date of approval.

Legal Disbursement Deficit

Per PwC's Forensic Review Report, the ACLC sent a letter on June 10, 2011 to LAO requesting funding to cover expenditures incurred of \$339,270 on various active cases and estimated costs on anticipated cases. The report also noted that as per ACLC, the costs of \$339,270 were estimated costs as opposed to actual costs incurred. Actual costs incurred totaled \$187,608 as verified by PwC in the course of their forensic review.

PwC Recommendations (i), (ii): (i) Further inquiry be made of the Clinic to understand what expenditures comprise the \$339,270 set out in the June 10 letter, after backing out those expenditures not incurred, approximate the deficit of \$15,768 noted in the audited financial statements as of March 31, 2011. (ii) Further inquiry be made of the Clinic to understand whether the remaining supported costs of \$115,281 were paid out of the General Fund prior to March 31, 2011.

- Per IAU's discussion with the Executive Director, again the ED explained that expenditures of \$339,270 were an estimate and did not represent actual costs incurred.

As the \$339,270 was not incurred, it does not reason to use this figure as a basis for computing the deficit of \$15,768 noted in the audited financial statements as of March 31, 2011. The audited financial statements indicated expenses of \$69,927 that led to the deficit of \$15,768.

Per ACLC's 2010/2011 Audited Financial Statements:

Opening legal disbursement fund balance:	\$	22,357
Add: Revenue		31,802
Less: Expenses		<u>(69,927)</u>
Ending legal disbursement fund balance:		<u><u>(15,768)</u></u>

- PwC reviewed the invoices supporting the \$187,608 legal costs incurred; PwC was able to trace payment of \$32,574 to the Legal Disbursement Fund and \$39,753 to the General fund. PwC was not able to determine which fund the remaining \$115,281 (i.e. \$187,608 - \$32,574 - \$39,753) was paid out of.

As implied in PwC's report where they did not identify any other payments from the General or Legal Disbursement funds, the payments are likely to be made from the other ACLC funds. (As PwC's review was limited to cash transactions only, they would not have reviewed interfund entries which may have shown which fund had paid the expenses on behalf of the Legal Disbursement fund). The invoices totaling the \$187,608 that had been previously reviewed by PwC over the course of their forensic review were not readily available. Since IAU's authority is limited to LAO funds, IAU would not be able to verify payments made in 2011 from other funds. As a result, the recommendation has been closed due to the low achievability of further work.



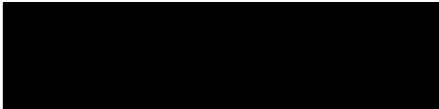
APPENDIX A – ACKNOWLEDGEMENTS

The IAU acknowledges ACLC management and staff's cooperation and assistance over the course of our audit. The audit was originally planned to commence on March 16, 2015 but due to unforeseen scheduling issues including the Office Manager being on jury duty from March to May and preparing for the annual audit, the audit commenced on August 24, 2015. Although IAU was provided with the required documents, IAU was informed by the ED that ACLC would not permit IAU to retain any documentation for the purposes of this audit. Given the climate of litigation, IAU understands ACLC's concerns and was able to work around this limitation.

Conducted by:



Reviewed by:



APPENDIX B – PWC RECOMMENDATIONS SUMMARY

Recommendations from the 2013 PwC Report		Implementation Status
A. Clinic's Policies and Procedures		
1	Notations by the Office Manager on invoices reviewed as evidence of approval.	Implemented – Other Matters Noted
2	Development of policies and procedures to reconcile taxi chits used by Clinic staff to the invoices received from Diamond Taxi to ensure that the invoices are accurate and that the appropriate amounts are allocated to each of the ACLC funds.	Implemented
3	Development of policies and procedures to reconcile the individual transactions on the Visa statements to each of the ACLC Funds to ensure that the appropriate amounts are allocated to each of the ACLC funds	Implemented
4	Implement a policy to provide guidelines with respect to use of taxis by Clinic staff. This policy should be aligned with LAO policy.	Partially Implemented
B. Clinic's VISA Expenditures		
1	Implementation of a policy to provide guidelines with respect to the use of the Clinic's Visa, including the review and approval of transactions incurred on the Visa.	Implemented
2	Prohibit pre-payments on the Visa to ensure that the Clinic's spending limit is adhered to.	Implemented
3	Require the preparation of expense reports for expenditures incurred on the Clinic's Visa, including appropriate review and approval processes.	Partially Implemented
4	Require receipts, invoices or other support for all expenses incurred on the Clinic's Visa.	Implemented
5	Consider having separate Visa accounts for the General Fund, and other ACLC Funds	Not Implemented but Risk Mitigated
6	Further inquiries be made with the Clinic regarding the nature of the transactions identified on the VISA statements.	Partially Implemented
C. Travel Expenditures		
1	LAO implement requirements for the Clinic Board to monitor the Clinic's compliance with the Clinic Travel, Meal, and Hospitality Expenses Directive.	Partially Implemented
E. Payment of Discretionary Bonuses and Related Payments		
1	Maintain a policy for the payment of discretionary bonuses that is consistent with the Funding Agreement	Implemented

Recommendations from the 2013 PwC Report		Implementation Status
F. Lieu time and Overtime payments		
1	Ensure support for overtime is maintained on a go forward basis.	Implemented
2	Revise the Clinic's Personnel Policy to clearly indicate whether it applies to the Executive Director.	Implemented
3	Clinic maintains a policy for the provision of days in lieu that is consistent with the LAO Personnel Policy Guidelines for Clinics, as applicable.	Partially Implemented
G. Spending Incurred on behalf of other ACLC Funds and Initiatives		
1	Assess whether the costs incurred in relation to the NACI project meet the definition of clinic law services. We noted this was an open item in the management letter received by the Clinic from Meyers Norris on July 20, 2011.	Implemented
2	Assess whether the costs incurred for travel outside of Ontario is consistent with the Funding Agreement.	Implemented
3	Ensure that the Clinic maintains a policy for travel outside Ontario that is consistent with the Funding Agreement, as applicable.	Implemented
H. Inter-fund Transfers		
1	Maintain a policy for inter-fund-transfers that is consistent with the Funding Agreement.	Not Implemented but Risk Mitigated
2	The policy should include monitoring procedures to ensure that the Clinic is in compliance with the Funding Agreement and its own policies as it relates to inter-fund transfers, including the requirement for regular reporting of inter-fund transfers and written approval by the Clinic Board.	Not Implemented but Risk Mitigated
J. Legal Disbursements		
1	Ensure that the Clinic's Disbursement Policy is aligned with the LAO's Clinic Legal Disbursements Policy	Implemented – Other Matters Noted
I. Legal Disbursement Deficit		
1	Further inquiry be made of the Clinic to understand what expenditures comprise the \$339,270 set out in the June 10 letter, after backing out those expenditures not incurred, approximate the deficit of \$15,768 noted in the audited financial statements as of March 31, 2011.	Implemented – Other Matters Noted
2	Further inquiry be made of the Clinic to understand whether the remaining supported costs of \$115,281 were paid out of the General Fund prior to March 31, 2011	Implemented – Other Matters Noted

APPENDIX C – ENGAGEMENT OBJECTIVES AND SCOPE

Objectives

The focus of the IAU's follow-up audit was to test whether ACLC had implemented PwC's recommendations as per PwC's Forensic Review Report dated April 8, 2013.

Scope

The scope of the follow-up audit was to be restricted to 90 days after the effective date of the Decision on Request For Reconsideration Dated October 7, 2014, which was signed on November 7th 2014. Ninety days after the signing date of November 7th, 2014 would imply an effective date of implementation of February 17th, 2015. Therefore, the period of our follow-up audit was from February 17th to July 31st, 2015.

Our follow-up audit was strictly limited to testing the implementation of the PwC recommendations by ACLC within the specified period of time. Note that some recommendations made by PwC were intended for implementation by LAO. The IAU did not verify whether these recommendations were implemented by LAO.

The IAU's work was conducted in compliance with the International Standards for the Professional Practice of Internal Auditing.

APPENDIX D – DISTRIBUTION LIST

The Final Report was distributed to the following:

Margaret Parsons, Executive Director, ACLC

Rawle Elliott, Board Chair, ACLC

David Field, President and Chief Executive Officer, LAO

Janet Budgell, Vice President, Southwest Region and Specialty Clinics, LAO

Roderick Strain, Acting Vice President, Strategic Planning and Compliance, LAO

Compliance Committee, LAO

Audit & Finance Committee, Board of Directors, LAO