

# LEGAL SERVICES CORPORATION



## Office of Inspector General

Semiannual Report to the Congress  
April 1, 2022 – September 30, 2022

OFFICE OF INSPECTOR GENERAL  
**LSC** | America's Partner  
for Equal Justice  
LEGAL SERVICES CORPORATION

[www.oig.lsc.gov](http://www.oig.lsc.gov)

**TO THE BOARD OF DIRECTORS OF THE  
LEGAL SERVICES CORPORATION  
AND TO THE UNITED STATES CONGRESS**

**A MESSAGE FROM THE ACTING INSPECTOR GENERAL**

I am pleased to submit this report on the activities and accomplishments of LSC's Office of Inspector General (OIG) for the period April 1, 2022, through September 30, 2022.

During this reporting period our audit office issued three reports, covering diverse subject areas. We conducted a significant audit of LSC's distribution, use, and oversight of \$50 million in funds provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The report reflected LSC's overall successful performance in handling the CARES Act funds in each of the key areas reviewed. We identified some areas with opportunities for improvement and made corresponding recommendations.

We also provided oversight for the annual audit of the Corporation's financial statements, conducted by an independent certified public accounting firm under contract to the OIG. The auditors issued a "clean opinion" on the financial statements.

As part of our ongoing program to assist grantees in protecting their information systems, we issued a special report, sent to all grantees, analyzing the findings and recommendations of information technology vulnerability assessments conducted from June 2021 through February 2022. We have been pleased at grantees' positive responses to this program. The assessments have proven of significant benefit, helping them to identify and correct issues that could compromise their information systems.

We continued our Quality Control Review (QCR) program, to provide enhanced oversight of the independent audits required annually of LSC grantees. During the period we issued 23 QCRs.

Our investigations office opened 17 new cases and closed 17 cases during the reporting period. The investigations involved a variety of criminal and regulatory matters, including fraud and cyber fraud, theft, misuse of government funds, impermissible outside employment, and other potential violations of LSC statutes and regulations.

We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. Through fraud alerts, online articles, and special

advisories, we work to keep grantees well-informed about current risks to their programs, and provide practical information on how to prevent, detect, or respond to such threats.

In response to the high incidence of ransomware, phishing, and other cyberattacks, we maintain a dedicated OIG webpage with links to cybersecurity resources for grantees. We presented two Cybercrimes Awareness Briefings during the period, and have a recorded briefing posted on the webpage. We also provide information on our website specifically relating to COVID-19 scams.

We have continued conducting fraud awareness briefings and vulnerability assessments. This period, we also completed two special assessments focused on CARES Act funding.

I was particularly pleased to have the opportunity to meet with leaders of grantees from across the nation at the 2022 LSC Executive Director Conference. Members of the OIG's senior staff and I presented an overview of the role and functions of our office, emphasizing our commitment to serving as a resource in helping to protect their programs and support them and LSC in service to their clients.

I would like to recognize the efforts of the entire OIG staff for the dedicated and professional manner in which they have continued to carry out their responsibilities under the challenging conditions of the pandemic.

I also wish to express my sincere appreciation to the members of LSC's Board of Directors for the support they have shown for the work of the OIG, and to me personally in my service as Acting IG.

Finally, on behalf of the entire staff of the OIG, we are grateful to the Congress for its continuing support of this office.

Sincerely,



Roxanne Caruso  
Acting Inspector General  
October 31, 2022

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## OFFICE OF INSPECTOR GENERAL OVERVIEW

The LSC Office of Inspector General operates under the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3. The OIG has two principal missions: (1) to promote economy and efficiency in the activities and operations of LSC and its grantees; and (2) to prevent and detect fraud and abuse.

Our primary tool for achieving these missions is objective and independent fact-finding. We perform financial and other types of audits, evaluations, and reviews, and conduct criminal and regulatory compliance investigations. Our fact-finding activities enable us to develop recommendations for LSC and its grantees, as well as for Congress, for actions that will correct problems, better safeguard the integrity of funds, and increase the economy, efficiency, and effectiveness of LSC and its grantee programs.

The OIG is also tasked with ensuring the quality of audits of LSC and its grantees, and with reviewing proposed and existing regulations and legislation affecting the operations and activities of LSC and the programs it funds.

In addition, since 1996, LSC's annual appropriations have directed that grantee compliance with legal requirements be monitored through the annual grantee audits conducted by independent public accountants, under guidance provided by the OIG. Congress has also specified that the OIG has authority to conduct its own reviews of grantees.

LSC's fiscal year (FY) 2022 appropriation (exclusive of OIG operations) is \$483.5 million. LSC received an additional \$40 million in disaster-aid funding in FY 2022 and \$50 million through supplemental CARES Act funding in FY 2020. The Corporation provides funding to 132 independent nonprofit legal aid programs throughout the U.S. and its territories.

The OIG is headed by an Inspector General (IG), who reports to and is under the general supervision of the LSC Board of Directors. The IG has broad authority to manage the organization, including setting OIG priorities, directing OIG activities, and hiring OIG personnel and contractors.

To ensure objectivity, the IG Act grants the LSC IG independent authority to determine what audits, investigations, and other reviews are performed, to gain access to all necessary documents and information, and to report OIG findings and recommendations to LSC management, its Board of Directors, and directly to Congress.

The IG Act also prohibits LSC from assigning to its IG any of LSC's own "program operating responsibilities." This means that the OIG does not perform functions assigned to LSC by the Legal Services Corporation Act, 42 U.S.C. §§2996 *et seq.*, other than those transferred to the OIG under the IG Act and those otherwise assigned by Congress, in LSC's annual appropriations acts.

The IG reports serious problems to the LSC Board of Directors and must also report to appropriate law enforcement authorities when, through audit, investigation, or otherwise, the IG finds that there are reasonable grounds to believe that a crime has occurred. The IG is required by law to keep Congress informed of the activities of the office through semiannual reports and other means. The IG also provides periodic reports to the board and management of LSC and, when appropriate, to the boards of directors and management of LSC grantees. Some of these reports are specific (e.g., an audit of a particular grantee or an investigation of a theft or embezzlement), while others are of broader application.

Within their different statutory roles, the OIG and LSC management and staff strive to enable LSC to most effectively pursue its mission of promoting and supporting equal access to justice for low-income persons.

## AUDITS

During this reporting period, the OIG issued three reports: one report reviewing LSC's handling of CARES Act funds, a year-end financial statement audit of LSC, and one report as part of our vulnerability assessment program for grantees' IT networks. Summaries of the reports are provided below. The full CARES Act and corporate audit reports are available on our website, along with a summary report on recommendations arising from the IT vulnerability assessments. At the conclusion of the period, we had five projects underway.

The OIG has responsibility for overseeing the audits performed annually at each grantee by independent public accountants (IPAs). During the reporting period, we reviewed 111 IPA reports, with fiscal year ending dates ranging from December 31, 2021, through January 31, 2022.

We issued 23 Quality Control Review (QCR) reports this period. The goals of the QCR initiative are to improve the overall quality of the IPA audits and to ensure that all audits are conducted in accordance with applicable standards and with the guidance provided by the OIG.

### **Audit of LSC's Distribution, Use, and Oversight of CARES Act Funds**

In 2020, Congress appropriated \$50 million to LSC under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. CARES Act funds could be used for activities that were affected by, or became necessary because of, the COVID-19 pandemic. LSC distributed a total of \$47.1 million in COVID-19 Supplemental Grants, with individual awards to all its 132 recipients; distributed \$2.4 million for Telework Capacity Building Grants, designed to help recipients operate remotely, to 126 recipients; and placed \$500,000 in reserve for LSC management and grants oversight (MGO) to offset administrative costs. The MGO funds were used for financial controls, technical assistance on the Telework Capacity Building Grants, grant allocations, fiscal oversight, and reporting.

The OIG conducted an audit to assess LSC's handling of the CARES Act funds. Our audit focused on LSC's methodology and internal controls over the distribution, utilization, and oversight of the CARES Act funds to determine if they were consistent with CARES Act requirements, LSC policies and procedures, and other applicable regulations.

#### **Audit Results**

There were three principal audit findings:

- (1) We determined that LSC's distribution and oversight activities for CARES Act funding were adequate to ensure proper use and monitoring of funds;

(2) We found that the internal controls for LSC's oversight of recipients' reporting were generally adequately designed and implemented to ensure CARES Act funds were expended in a manner consistent with applicable terms and conditions; and

(3) We found that in general LSC had measures in place to evaluate the results and effectiveness of CARES Act funds.

Overall, we concluded that LSC had quickly implemented procedures to distribute grant funds, had developed a process for grantees to submit quarterly reports, and had evaluated the results and effectiveness of CARES Act Funds.

We also identified three areas with opportunities for improvement: inadequate documentation over approvals for late quarterly reports; unclear reporting instructions, with some discrepancies between the reporting instructions issued to LSC recipients and the information required by the electronic reporting system; and outdated policies and procedures in each of the LSC manuals applicable to oversight and use of CARES Act funds.

### Recommendations

We suggested that LSC review its current processes and CARES Act work products to develop written policies and procedures to use for potential unanticipated appropriated funds in the future. We provided six recommendations with respect to strengthening internal controls, improving documentation, clarifying reporting instructions, and updating policies and procedures.

LSC agreed with all six recommendations.

LSC completed corrective actions for three recommendations and the OIG considers them closed. The remaining three recommendations will remain open until we receive appropriate confirmation of actions taken and supporting documentation.

### **FY 2021 Corporate Audit**

The Corporation's FY 2021 financial statement audit was conducted by an independent public accounting firm, under contract and subject to general oversight by the OIG. The OIG reviewed the work of the firm and found it in compliance with generally accepted government auditing standards. The Corporation received an unqualified opinion on the audit of its financial statements.

The Independent Auditor's Report on Internal Control over Financial Reporting reported that the results of their tests disclosed no deficiencies in internal control that would be considered material weaknesses.

The Independent Auditor's Report on Compliance with Laws and Other Matters reported that the results of their tests disclosed no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

### **Vulnerability Assessments of Grantee IT Networks**

In 2016, we started a program to conduct Information Technology Vulnerability Assessments of grantees' computer networks. We engaged a specialized contractor to perform the assessments. In May of this year, we transmitted a report to the LSC Board of Directors and to all grantee executive directors and their respective board chairs providing a summary of the findings and recommendations from the most recent round of assessments. Although the size and complexity of each grantee's network was different, the report identified common security issues and provided best practices to mitigate those vulnerabilities. The report was intended to provide insight into common problem areas that may affect LSC grantees and identify ways to strengthen grantees' network security. The recommendations from the summary report are posted on the OIG website.

## **Statistical Summary**

### **Audits**

|  |   |
|--|---|
| Open at beginning of reporting period .....                  | 5 |
| Opened during the reporting period.....                      | 2 |
| Audit reports issued or closed during reporting period ..... | 2 |
| Open at end of reporting period.....                         | 5 |

### **Recommendations to LSC Grantees**

|   |    |
|---|----|
| Pending at beginning of reporting period..... | 33 |
| Issued during reporting period.....           | 0  |
| Closed during reporting period .....          | 24 |
| Pending at end of reporting period .....      | 9  |

### **Recommendations to LSC Management**

|   |   |
|---|---|
| Pending at beginning of reporting period..... | 0 |
| Issued during reporting period.....           | 6 |
| Closed during reporting period .....          | 3 |
| Pending at end of reporting period .....      | 3 |

## **Oversight of IPA Audits**

### **Independent Audits of Grantees**

Since 1996, LSC's annual appropriation acts have required that each person or entity receiving financial assistance from the Corporation be subject to an annual audit by an IPA. Each grantee contracts directly with an IPA to conduct the required audit in accordance with generally accepted government auditing standards and the OIG Audit Guide for Recipients and Auditors (including the Compliance Supplement), which incorporates most requirements of the Uniform Guidance regulations, 2 CFR 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).

The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA audit process. Our oversight activities, detailed below, include desk reviews and a quality control program with independent reviews.

### **Desk Reviews of IPA Reports**

The OIG conducted desk reviews of IPA reports issued to grantees to identify potential problems or concerns that may warrant follow-up via audit, investigation, or other review. The results of our desk reviews are used as part of our risk assessment and planning processes and shared with LSC management. We also review recommendations to determine whether the grantees' actions were responsive and appropriate.

### **Quality Control Reviews**

Under our Quality Control Review (QCR) program, IPA firms performing grantee audits are subject to review to determine whether their work is being conducted in accordance with applicable standards and with the instructions issued by our office. The reviews are conducted by a certified public accounting (CPA) firm under contract with the OIG. The contractor also identifies issues that may require further attention or additional audit work by the IPA under review.

During this reporting period, we conducted 23 QCRs of LSC grantees' audited financial statements.

The QCRs found that 12 of the financial statement audits met standards with no exceptions. Ten of the audits met standards with one or more exceptions, four of which required the IPAs to perform additional work and provide documentation to support their conclusions. One of the IPAs provided the additional work and documentation which we evaluated and accepted. The additional work performed by the other three IPAs is not yet due to the OIG. For the other six financial statement audits that met standards with

one or more exceptions, we issued recommendations to the IPAs to implement in future audits of grantees.

One QCR conducted during the reporting period found that a grantee's financial statement audit did not meet standards. The OIG issued a notice to the IPA requiring them to perform corrective action and provide additional information to address the deficiencies. The additional work performed by the IPA is not yet due to the OIG.

During previous reporting periods, we found that four financial statement audits contained deficiencies and required additional work from the IPAs. We issued notices to the IPAs requiring them to perform corrective action and to provide additional information to address the deficiencies. In a previous period, we received additional work for two of the audits, but found the work to be unsatisfactory. Although we subsequently requested additional work to address the deficiencies, to date these deficiencies have not been satisfactorily addressed. For the other two audits, we received additional work during this reporting period. We evaluated the additional work performed by one of the IPAs and accepted the audit. We are currently evaluating the other response.

### **Follow-up Process**

LSC's annual appropriation acts have specifically required that LSC follow-up on significant findings identified by the IPAs and reported to the Corporation's management by the OIG. Unless the deadline is extended, IPA audit reports are submitted to the OIG within 120 days of the close of each grantee's fiscal year. As noted above, through our desk review process the OIG reviews each report and refers appropriate findings and recommendations to LSC management for follow-up. LSC management is responsible for ensuring that grantees submit appropriate corrective action plans for all material findings, recommendations, and questioned costs identified by the IPAs and referred by the OIG to management.

After corrective action has been taken by a grantee, LSC management notifies the OIG and requests that the finding(s) be closed. The OIG reviews management's request and decides independently whether it will agree to close the finding(s).

### **Review of Grantees' Annual Audit Reports: IPA Audit Findings**

The following is a summary of significant findings, and the status of follow-up on such findings, reported by the IPAs as part of the grantee oversight process. The audit reports and the findings reflect the work of the IPAs, not the OIG.

During this reporting period, the OIG reviewed a total of 111 IPA audits of grantees with fiscal year ending dates from December 31, 2021, through January 31, 2022. These audit reports contained 150 findings. The OIG reviewed the findings and determined that 112 were not significant, or that corrective action had already been completed. The remaining 38 findings were referred to LSC management during the period for follow-up.

Additionally, the OIG determined that four findings from reports reviewed during the prior reporting period were not significant, or that corrective action had already been completed, and referred one finding from reports reviewed during the prior reporting period, for a total of 39 referred this period to LSC management for follow-up. The following tables present information on the findings outlined in this section.

**Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending June 30, 2021, through January 31, 2022**

|  |    |
|--|----|
| Total Number of Findings Referred .....                            | 39 |
| Number of Findings Accepted for Review<br>by LSC Management.....   | 39 |
| Number of Findings Pending Determination<br>by LSC Management..... | 0  |

**Types of Findings Referred to LSC Management for Follow-up**

| <b><u>Category</u></b>                     | <b><u>Number of Findings</u></b> |
|--|----------------------------------|
| Financial Transactions and Reporting ..... | 21                               |
| Missing Documentation .....                | 9                                |
| Policies and Procedures/Other .....        | 5                                |
| Timekeeping.....                           | 3                                |
| Segregation of Duties .....                | 1                                |
| <b>TOTAL.....</b>                          | <b>39</b>                        |

## **INVESTIGATIONS**

During this period, OIG investigative activity resulted in two sentencing actions, one restitution order, one recovery referral, and one questioned cost referral.

The OIG opened 17 cases during this reporting period. These included eight investigative cases, two questioned cost cases, two Regulatory Vulnerability Assessments, and five Fraud Vulnerability Assessments. The investigative cases included allegations of theft, cyber fraud, benefits fraud, time and attendance fraud, misuse of government funds, impermissible outside employment, and other potential violations of LSC statutes and regulations.

The OIG closed 17 cases during the reporting period. These included 12 investigative cases, one Regulatory Vulnerability Assessment, and four Fraud Vulnerability Assessments. The OIG also issued three fraud prevention advisories and updated the OIG cyber security resources webpage for grantees.

### **Criminal Proceedings**

#### **Sentencing and Restitution Orders for Two Former Grantee Paralegals**

As reported in our April 2020 Semimanual Report to Congress, an OIG investigation found that two paralegals, formerly employed by an LSC grantee, devised a plan to divert eligible clients and defraud them, and the grantee, through a phony mortgage loan modification scheme.

The two former paralegals diverted eligible clients to their illegitimate business utilizing the grantee's intake process. Several of the low-income clients targeted were elderly, disabled, and/or persons with limited English proficiency. The clients were seeking legal assistance from the grantee to help save their homes from foreclosure. These clients were targeted by the defendants during intake interviews conducted at the grantee office and at community outreach events. The two former paralegals charged the clients upfront fees, provided misleading legal advice as non-attorneys, and took money for services not rendered. Due to this fraudulent scheme, the clients paid for unauthorized legal services and a significant number still lost their homes.

In our April 2022 Semimanual Report to Congress, we reported that the former paralegals pled guilty to a combined total of 71 counts, including grand theft, attempted grand theft, burglary in the first degree, petty theft, and the unauthorized practice of law. The counts included 66 felony counts and five misdemeanor counts. The charges were based on interviews and documentation from 25 victims.

On July 12, 2022, the former paralegals were each sentenced to 364 days confinement and were ordered to jointly pay restitution totaling \$46,150 to the victims.

## **Recovery Actions**

### **Referral for Recovery of Over \$1.5 Million in Part 1628 Carryover Funds**

We initiated an investigation based on a referral from LSC management regarding concerns about a grantee's accounting and fund allocation practices. The grantee had reallocated unspent restricted LSC funds to an unrestricted net asset account. Once the funds were reallocated, the grantee had no methodology to identify the funds as LSC-restricted funds. The OIG determined that the grantee violated LSC Regulation Part 1628, Recipient Fund Balances, as well as other LSC regulations and requirements, by placing the funds in an unrestricted account and not reporting the unspent funds to LSC.

The OIG investigation determined that between 2014 and 2020, \$1,561,846 in unspent LSC restricted funds, in excess of the allowable LSC annual carryover, were improperly reallocated by a grantee to an unrestricted net asset account. Under LSC Regulation Part 1628, any unspent LSC funds should have been reported to LSC annually and LSC should have been afforded the opportunity to determine if any unspent funds in excess of the annual carryover approval should have been returned to LSC.

The OIG referred the issue to LSC management with a recommendation that LSC should consider recovering \$1,561,846 in unspent funds under Part 1628.

### **Questioned Cost Referral Regarding Local Meals and Promotional Items**

The OIG opened an investigation after an OIG Fraud Vulnerability Assessment identified potential unallowable purchases for local meals at a grantee. The OIG found that for a number of years the grantee used LSC funds to purchase local meals for purposes such as working lunches and staff appreciation events, in an amount totaling \$3,047. The OIG referred this amount to LSC management for consideration of a questioned costs recovery.

In addition, the OIG identified additional purchases related to promotional items for client outreach in the amount of \$3,130. These purchases were referred to LSC for review to determine if additional guidance to grantees is required on purchases of promotional items for client outreach.

## **Fraud Prevention Initiatives**

The OIG maintains an active fraud prevention program, engaging in a variety of outreach and educational efforts intended to help protect LSC and its grantees from fraud and abuse. We regularly conduct Fraud Awareness Briefings (FABs), Fraud Vulnerability Assessments (FVAs), and Regulatory Vulnerability Assessments (RVAs). In view of the pandemic, we have been continuing to conduct these briefings and assessments remotely. We also issue fraud alerts, post articles on our online "Fraud Corner," and send

email Hotline Advisories to help increase grantees' awareness of developing trends that may pose a risk to their operations and to LSC funds.

### **Fraud Awareness Briefings**

FABs are presented by experienced OIG investigative staff and cover a variety of topics, such as: who commits fraud; what conditions create an environment conducive to fraud; how can fraud be prevented or detected; and what to do if fraud is suspected.

While employees at LSC-funded programs may generally be aware that fraud and abuse can occur at any organization, they may not be aware of the potential for such incidents occurring within their own programs. FABs highlight the unfortunate truth that a number of LSC-funded programs have been victimized by frauds, including recent cyber fraud attacks, that have resulted in significant losses.

The FABs describe common types of fraud, with particular focus on the various schemes that have been perpetrated against LSC grantees and the conditions that helped facilitate the losses. The briefings aim to foster a dialogue with staff and to engender suggestions for ways to help protect their own programs from fraud and abuse.

Since initiating the FAB program in 2009, we have conducted 171 in-person or remote briefings for grantees and subgrantees in all 50 states, the District of Columbia, and five territories, as well as briefings for the LSC Board of Directors and LSC headquarters personnel, a presentation at a National Legal Aid and Defender Association annual conference, and nine webinars that reached multiple grantees.

In September, the OIG presented a FAB to LSC's Board of Directors. In addition to the customary FAB topics, the presentation highlighted three recent fraud case examples, one insider threat case example, and information about the growing threat of external cyberattacks against LSC grantees. We also briefed the Board regarding fraud prevention resources available on the OIG website and the reporting of incidents or concerns through the OIG Hotline.

A recorded FAB is also posted on the OIG website, allowing interested audiences to view the recording at their convenience. During this reporting period, the OIG used the recorded FAB during two remote FVA and RVA visits. We encourage all grantee employees to view the recorded FAB and hope they find it a useful tool to help in preventing and detecting fraud. We also send emails to all new executive directors and fiscal officers, inviting them to view the FAB and providing them with a direct link to the recording.

## Cybercrimes Awareness Briefing

We have recorded a Cybercrimes Awareness Briefing and posted it on the OIG website. The presentation focuses on the various types of cybercrimes that have targeted LSC and its grantees since 2018. The briefing also provides grantees with best practices for preventing and detecting similar cyberattacks and suggestions for responding to cyberattacks. We also encouraged grantees to provide the briefing to their employees as part of a cybercrime training and prevention initiative.

During this reporting period, we provided two remote Cybercrimes Awareness Briefings to two grantees.

## Fraud Vulnerability Assessments

FVAs include a focused document review in areas considered high risk or prone to abuse. We also review the grantee's internal control policies, and the degree to which they are complied with in practice. Finally, we conduct a personal briefing for the executive director and principal financial officer on fraud detection and prevention measures appropriate to their particular program.

A typical FVA can include reviews of credit card transactions, petty cash accounts, bank account reconciliations, travel claims, office supply expenses, and other selected areas that have been linked to the commission of fraud at grantee programs. FVAs can help grantees identify both existing vulnerabilities and potential problem areas. FVAs sometimes detect ongoing fraud or abuse, which may result in further investigation. FVAs also serve as a deterrent by helping grantee staff members become aware of the potential for fraud and reminding them that the OIG will investigate and seek to prosecute cases involving fraud or misuse of LSC grant funds.

Four FVAs were closed during this reporting period. These included two of our typical FVAs and two specially focused fraud assessments, described below.

## CARES Act Funds

In 2020, LSC distributed \$49.5 million of federal CARES Act funds to grantees for preventing, preparing, and responding to the coronavirus. LSC provided the CARES Act funds to grantees through COVID-19 Response Grants and Telework Capacity Building Grants. During this reporting period, the OIG continued to conduct assessments on the use of CARES Act funds by grantees. (While the audit of CARES Act funds, reported under the Audits section of this report, focused on LSC's handling of CARES Act funds, these assessments focus on grantee spending of CARES Act funds.) The assessments determine whether a grantee's policies are adequately protecting and properly accounting for the funds and are ensuring compliance with the terms and conditions of the grants, as well as with LSC regulations.

Two CARES Act funds assessments were closed during this reporting period.

## **Regulatory Vulnerability Assessments**

We began conducting RVAs based on our experience in investigating financial frauds in which grantees were victimized. We often found that noncompliance or laxity with respect to certain regulatory and other requirements contributed to an environment that increased the potential for fraud. RVAs seek to determine whether the grantee is following applicable provisions of the LSC Act, LSC regulations, grant assurances, provisions of the Accounting Guide, and the case documentation and reporting requirements of LSC's Case Service Report Handbook. We have found that by focusing our reviews on certain key areas, we are able to assist grantees in identifying regulatory compliance issues that could also lead to broader potential financial vulnerabilities.

One RVA was closed during this reporting period.

## **Cyber Security Webpage Update**

In response to the increase in cyber threats targeting LSC grantee programs, during the prior reporting period the OIG created a webpage, Cyber Security Resources. The webpage includes links to resources produced by the OIG that inform grantees of pending cyber threats. The resources aim to assist grantees in preventing, detecting, and reporting cyber threats in order to mitigate potential harm to their programs. The webpage continues to be updated as additional advisories and resources are provided to the grantee community. The webpage can be found through the Cyber Security Resource button that appears on every page of the OIG website.

## **"The Fraud Corner"**

"The Fraud Corner," a feature on the OIG website, highlights fraud prevention issues identified through OIG investigative activities. This reporting period, we posted one new article: "FBI Warns: Ransomware Attacks Straining Local US Governments and Public Services."

In this article, we discussed a Private Industry Notification from the Federal Bureau of Investigation (FBI) warning local governments and public services of continued ransomware attacks that have resulted in a disruption of operational services, risks to public safety, and financial losses. The OIG warned grantees of the threat ransomware has been and will continue to be to the LSC grantee community. We provided grantees with a list of recommendations provided by the FBI, including requiring multi-factor authentication and ensuring all backup documentation is encrypted. The OIG also reminded grantees of their requirement to report cyber incidents to the OIG Hotline.

## **Hotline Advisories**

Hotline advisories are email notifications intended to quickly warn grantees about incidents reported to our OIG Hotline. This reporting period we sent two Hotline advisory emails to grantees: “Outside Employment During Remote Work” and “Recent Phishing Attacks - Intuit QuickBooks.”

In the “Outside Employment During Remote Work” advisory, we notified grantees of a recent case involving an attorney who was employed simultaneously (full-time) at two different grantee programs. We also notified grantees of a recent trend in dual employment during the pandemic due to telework. The OIG warned grantees of the risk associated with time and attendance issues as well the use of grantee resources due to outside employment.

In the “Recent Phishing Attacks - Intuit QuickBooks” advisory, we notified grantees of recent phishing/malware attacks on businesses that use QuickBooks accounting software. Since some grantees use the QuickBooks software, the advisory informed grantees of the different types of schemes and how the schemes were being perpetrated against QuickBooks users. The advisory also provided grantees with links to past OIG advisories on phishing and ransomware attacks.

## **Hotline**

The OIG maintains a Hotline for reporting illegal or improper activities involving LSC or its grantees. Information may be provided by telephone, fax, email, or regular mail. Upon request, a person’s identity will be kept confidential. Reports may also be made anonymously.

During this reporting period, the OIG received 114 Hotline contacts. Of these matters, 20 were referred to LSC management for follow-up, eight were opened as investigations, and the remaining 86 were closed.

## Statistical Summary<sup>1</sup>

### Investigative Cases

|                                       |    |
|---------------------------------------|----|
| Open at the beginning of period ..... | 22 |
| Opened during period .....            | 17 |
| Closed during period .....            | 17 |
| Open at the end of period .....       | 22 |
| Investigative reports issued.....     | 24 |

### Prosecutorial Activities

|                   |   |
|-------------------|---|
| Sentencings ..... | 2 |
|-------------------|---|

### Investigative Activities

|   |   |
|---|---|
| Inspector General subpoenas issued..... | 1 |
|---|---|

### Monetary Results

|                   |          |
|-------------------|----------|
| Restitution ..... | \$46,150 |
| Court Fees .....  | \$280    |
| Court Fees .....  | \$280    |
| TOTAL .....       | \$46,710 |

### Referrals to LSC Management for Recovery Consideration

|                               |             |
|-------------------------------|-------------|
| Unspent Carryover Funds ..... | \$1,561,846 |
| Questioned Costs .....        | \$3,047     |
| TOTAL .....                   | \$1,564,893 |

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<sup>1</sup> Data reflected in the statistical summary were compiled based on direct counts.

## **OTHER OIG ACTIVITIES**

### **Legislative, Regulatory, and Policy Reviews**

Pursuant to our statutory responsibilities the OIG reviews, and where appropriate comments on, statutory and regulatory provisions affecting LSC and/or the OIG, as well as LSC interpretive guidance and internal policies and procedures.

### **Freedom of Information Act**

The OIG is committed to complying fully with the requirements of the Freedom of Information Act (FOIA). During this reporting period the OIG received two FOIA requests. Both were responded to within the requisite time frames.

### **Professional Activities and Assistance**

The OIG participates in and otherwise supports various activities and efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), as well as other inter-agency and professional groups. The IG serves as a member of the CIGIE Audit Committee, which focuses on government auditing standards and cross-cutting audit issues. This period we participated in CIGIE efforts with respect to cybersecurity training and advancing diversity, equity, inclusion, and accessibility (DEIA) initiatives.

Senior OIG officials are active participants in IG community peer groups in the areas of audits, investigations, inspections and evaluations, public affairs, new media, and legal counsel. The groups provide forums for collaboration and are responsible for such initiatives as developing and issuing professional standards, establishing protocols for and coordinating peer reviews, providing training programs, and promulgating best practices. The OIG also routinely responds to requests for information or assistance from other IG offices.

## **APPENDIX – PEER REVIEWS**

The following information is provided pursuant to the requirements of section 5(a) of the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3 §5(a)(14)(B):

The last peer review of the OIG was conducted by the Office of the Inspector General for the National Railroad Passenger Corporation (more commonly known as Amtrak). Its report was issued on November 13, 2020. We received a rating of “pass.”

**TABLE I**  
**Audit Reports, Other Reports, and Quality Control Reviews**

**Part A**  
**Audit Reports**

| <u>Report Title</u>  | <u>Date Issued</u> | <u>Questioned Costs</u> | <u>Funds Put<br/>to Better<br/>Use</u> | <u>Unsupported<br/>Costs</u> |
|--|--------------------|-------------------------|--|------------------------------|
| LSC 2021 Fiscal Year Audit of the Corporation                      | 7/1/2022           | \$0                     | \$0                                    | \$0                          |
| Audit on LSC's Distribution, Use, and Oversight of CARES Act Funds | 7/26/2022          | \$0                     | \$0                                    | \$0                          |

**Part B**  
**Other Reports**

| <u>Report Title</u>  | <u>Date Issued</u> | <u>Description</u>  |
|--|--------------------|---|
| LSC OIG Summary Information Technology Vulnerability Assessment Report (sent to all grantees) and LSC OIG Information Technology Vulnerability Assessment Summary of Recommendations (posted to the OIG website) | 5/24/2022          | The report sent to all grantees summarized the common vulnerabilities and recommendations from the grantee assessments. The report posted to the OIG website includes recommendations and best practices to mitigate vulnerabilities and strengthen network security. |

**TABLE I**

**Part C**

**Quality Control Reviews**

|    | <u>IPA</u>                       | <u>Recipient</u>  | <u>Date Issued</u> |
|----|----------------------------------|---|--------------------|
| 1  | Plante & Moran, PLLC             | Legal Aid of Western Michigan                             | 4/06/2022          |
| 2  | Crowe LLP                        | Indiana Legal Services                                    | 4/19/2022          |
| 3  | Sobel & Co. LLC                  | South Jersey Legal Services, Inc.                         | 4/27/2022          |
| 4  | Watkins Uiberall, PLLC           | Memphis Area Legal Services, Inc.                         | 5/11/2022          |
| 5  | SB & Company, LLC                | Maryland Legal Aid  | 6/02/2022          |
| 6  | Maher Duessel, CPAs              | Northwestern Legal Services                               | 6/02/2022          |
| 7  | Maher Duessel, CPAs              | Southwestern Pennsylvania Legal Services, Inc.            | 6/02/2022          |
| 8  | Dana F. Cole & Company, LLP      | Legal Aid of Nebraska                                     | 6/08/2022          |
| 9  | Barnes Wendling CPAs             | Community Legal Aid Services                              | 6/17/2022          |
| 10 | Barnes Wendling CPAs             | The Legal Aid Society of Cleveland                        | 6/17/2022          |
| 11 | Medaglia & Murphy Inc.           | Northeast Legal Aid, Inc.                                 | 7/08/2022          |
| 12 | SVA Certified Public Accountants | Prairie State Legal Services, Inc.                        | 7/21/2022          |
| 13 | Carr, Riggs & Ingram, LLC        | Lone Star Legal Aid                                       | 7/21/2022          |
| 14 | Burnham & Schumm P.C.            | Utah Legal Services, Inc.                                 | 7/25/2022          |
| 15 | Eide Bailly, LLP                 | Community Legal Services, Inc.                            | 8/01/2022          |
| 16 | Coley, Eubank & Company, P.C.    | Virginia Legal Aid Society, Inc.                          | 8/01/2022          |
| 17 | Kevane Grant Thornton, LLC       | Puerto Rico Legal Services, Inc.                          | 8/05/2022          |
| 18 | KraftCPAs PLLC                   | Legal Aid of East Tennessee                               | 8/17/2022          |
| 19 | KraftCPAs PLLC                   | Legal Aid Society of Middle Tennessee and the Cumberlands | 8/17/2022          |
| 20 | Wegner CPAs, LLP                 | Wisconsin Judicare, Inc.                                  | 8/29/2022          |
| 21 | Harrington Group, CPAs, LLP      | California Indian Legal Services, Inc.                    | 9/15/2022          |
| 22 | Legacy Professionals LLP         | Legal Aid Chicago   | 9/15/2022          |
| 23 | Purvis, Gray and Company, LLP    | Florida Rural Legal Services, Inc.                        | 9/28/2022          |

## TABLE II

### Audit Reports Issued with Questioned Costs

|  | <u>Number of Reports</u> | <u>Questioned Costs</u> | <u>Unsupported Costs</u> |
|--|--------------------------|-------------------------|--------------------------|
| A. For which no management decision has been made by the commencement of the reporting period. | 1                        | \$376,521               | \$0                      |
| B. Reports issued during the reporting period  | 0                        | \$0                     | \$0                      |
| Subtotals (A + B)  | 1                        | \$376,521               | \$0                      |
| C. For which a management decision was made during the reporting period                        | 0                        | \$0                     | \$0                      |
| (i) dollar value of recommendations that were agreed to by management                          | 0                        | \$0                     | \$0                      |
| (ii) dollar value of recommendations that were not agreed to by management                     | 0                        | \$0                     | \$0                      |
| D. For which no management decision had been made by the end of the reporting period           | 1                        | \$376,521               | \$0                      |
| E. Reports for which no management decision had been made within six months of issuance        | 1                        | \$376,521               | \$0                      |

### TABLE III

#### Audit Reports Issued with Funds to Be Put to Better Use

|  | <u>Number of<br/>Reports</u> | <u>Dollar<br/>Value</u> |
|--|------------------------------|-------------------------|
| A. For which no management decision has been made by the commencement of the reporting period. | 0                            | \$0                     |
| B. Reports issued during the reporting period  | 0                            | \$0                     |
| Subtotals (A + B)  | 0                            | \$0                     |
| C. For which a management decision was made during the reporting period:                       | 0                            | \$0                     |
| (i) dollar value of recommendations that were agreed to by management                          | 0                            | \$0                     |
| (ii) dollar value of recommendations that were not agreed to by management                     | 0                            | \$0                     |
| D. For which no management decision had been made by the end of the reporting period           | 0                            | \$0                     |
| E. For which no management decision had been made within six months of issuance                | 0                            | \$0                     |

## TABLE IV

### Part A Audit Reports Issued Before this Reporting Period for Which No Management Decision Was Made by the End of the Reporting Period

| <u>Report Title</u>                              | <u>Date Issued</u> | <u>Comments</u>   |
|--|--------------------|---|
| <b>Central Virginia Legal Aid Society, Inc.</b>  | 12/23/2019         | The grantee partially responded to two recommendations and was unresponsive to three. The OIG referred the five outstanding recommendations to LSC management for resolution. The OIG referred two additional recommendations to LSC management during the SAR period ending March 31, 2021. LSC management is working with the grantee to resolve all seven recommendations and will notify the OIG upon resolution. |
| <b>Legal Services Vermont</b>                    | 01/11/2021         | The grantee agreed with a recommendation and the OIG considered the grantee's comments as responsive; however, the OIG referred the recommendation to LSC management for resolution. LSC management is working with the grantee to resolve the recommendation and will notify the OIG upon resolution.  |
| <b>Coast to Coast Legal Aid of South Florida</b> | 07/08/2021         | The OIG referred to LSC management for review and action matters over program integrity, discrepancies over related party transactions, and cost allocation, including \$376,521 in questioned costs. LSC management is working with the grantee to resolve the questioned costs and related issues. LSC management will notify the OIG upon resolution.  |

## TABLE IV

### Part B

#### Audit Reports Issued Before this Reporting Period with Unimplemented Recommendations as of the End of the Reporting Period

| <b>Report Title</b>                      | <b>Date Issued</b> | <b>Findings Summary<sup>1,2</sup></b> | <b>Comments</b>  |
|--|--------------------|---------------------------------------|--|
| <b>Central California Legal Services</b> | 08/30/2021         | O                                     | Corrective action in process. The OIG is working directly with the grantee to close one recommendation |

**Legend:**

|                                      |                              |   |                        |                           |
|--------------------------------------|------------------------------|---|------------------------|---------------------------|
| A = Written Policies & Procedures    | B = Disbursements            | C = Contracting                           | D = Fixed Assets       | E = Derivative Income     |
| F = Credit Cards                     | G = Cost Allocations         | H = General Ledger & Financial Controls   | I = Client Trust Funds | J = Segregation of Duties |
| K = Management Reporting & Budgeting | L = Accounting System Access | M = Vehicles                              | N = Job Descriptions   | O = Employee Benefits     |
| P - Payroll                          | Q – Internal Controls        | R = Administration & Oversight Activities |                        |                           |

<sup>1</sup> There are no quantified potential cost savings associated with these open recommendations.

<sup>2</sup> The letters in this column do not equate to the total number of findings for each grantee. Some letters are associated with multiple findings.

## TABLE V

### Index to Reporting Requirements of the Inspector General Act

| <u>IG Act<br/>Reference</u> | <u>Reporting Requirement</u>   | <u>Page</u> |
|-----------------------------|--|-------------|
| Section 4(a)(2)             | Review of and recommendations regarding legislation and regulations.   | None        |
| Section 5(a)(1)             | Significant problems, abuses, and deficiencies.  | 3-5, 10-11  |
| Section 5(a)(2)             | Recommendations with respect to significant problems, abuses, and deficiencies.  | 3-5         |
| Section 5(a)(3)             | Prior significant recommendations on which corrective action has not been completed.   | 24          |
| Section 5(a)(4)             | Matters referred to prosecutive authorities.   | 10          |
| Section 5(a)(5)             | Summary of instances where information was refused.  | None        |
| Section 5(a)(6)             | List of audit reports by subject matter, showing dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and funds to be put to better use. | 19          |
| Section 5(a)(7)             | Summary of each particularly significant report.   | 3-5, 11     |
| Section 5(a)(8)             | Statistical table showing number of audit reports and dollar value of questioned costs.  | 21          |
| Section 5(a)(9)             | Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.   | 22          |
| Section 5(a)(10)(A)         | Summary of each audit issued before this period for which no management decision was made by the end of the period.  | 23          |
| Section 5(a)(10)(B)         | Audit reports with no establishment comment within 60 days.  | None        |
| Section 5(a)(10)(C)         | Audit reports issued before this period with unimplemented recommendations as of the end of the period.  | 24          |
| Section 5(a)(11)            | Significant revised management decisions.  | None        |
| Section 5(a)(12)            | Significant management decisions with which the Inspector General disagrees.   | None        |
| Section 5(a)(14)-(16)       | Peer reviews.  | 18          |
| Section 5(a)(17)-(18)       | Statistical tables on investigations.  | 16          |
| Section 5(a)(19)            | Investigations involving senior employees where allegations of misconduct are substantiated.   | None        |
| Section 5(a)(20)            | Instances of whistleblower retaliation.  | None        |
| Section 5(a)(21)            | Attempts by the establishment to interfere with OIG independence.  | None        |
| Section 5(a)(22)            | Specified matters closed and not disclosed to the public.  | None        |

\*Refers to provisions of the Inspector General Act of 1978, as amended.



[Oversight.gov](https://www.oversight.gov) was created by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to put on a single website all public reports from federal Inspectors General (IGs). The site includes a publicly accessible, text searchable repository of reports published by IGs, a user-friendly map to find reports based on geographic location, and contact information for each IG's whistleblower hotline.

Like the other OIGs, at the Legal Services Corporation we will continue to post our reports to our own website, [www.oig.lsc.gov](http://www.oig.lsc.gov), but with Oversight.gov, users can sort, search, and filter the site's database of public reports from all of CIGIE's member OIGs, including the LSC OIG, to find reports of interest. Users can receive notifications when new reports are added to the site by following CIGIE's Twitter account, [@OversightGov](https://twitter.com/OversightGov).



## LSC OIG HOTLINE

# PROTECT YOUR PROGRAM AND YOUR CLIENTS

REPORT VIOLATIONS OF LAW AND LSC REGULATIONS



### FRAUDULENT ACTIVITY

TRAVEL, PAYROLL, AND CONTRACT FRAUD  
TIME AND ATTENDANCE ABUSE  
THEFT, BRIBERY, AND KICKBACKS  
DIVERSION OF CLIENTS/FEEs  
CYBER-CRIMES

### OTHER VIOLATIONS

IMPROPER USE OF LSC FUNDS  
VIOLATIONS OF LSC RESTRICTIONS  
CONFLICTS OF INTEREST



#### REACH US AT:

✉ [HOTLINE@OIG.LSC.GOV](mailto:HOTLINE@OIG.LSC.GOV)

🌐 [OIG.LSC.GOV/OIG-HOTLINE](http://OIG.LSC.GOV/OIG-HOTLINE)

📞 800-678-8868

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PHONE CAMERA FOR DETAILS