

# LEGAL SERVICES CORPORATION



## Office of Inspector General

Semiannual Report to the Congress  
October 1, 2018 – March 31, 2019

**LSC** | America's Partner  
for Equal Justice

LEGAL SERVICES CORPORATION

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

**A MESSAGE FROM THE 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 October 1, 2018, through March 31, 2019.

During this reporting period our audit office issued three reports. Two audit reports focused on the adequacy of LSC grantees' internal controls, particularly with respect to financial operations. The reports documented specific internal control weaknesses and areas of concern and made recommendations for corrective action. Notably, the grantees agreed with 100% of our recommendations.

Our third report was part of our continuing program of conducting vulnerability assessments of grantees' computer systems. Our assessments test for both internal and external weaknesses in grantees' networks. We believe this effort has been of significant benefit, helping grantees to identify and correct issues that could compromise the integrity of their information systems.

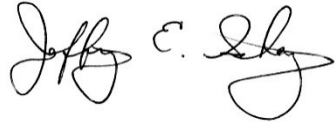
We also continued our Quality Control Review (QCR) program, to provide enhanced oversight of the independent audits required annually of LSC grantees. During the period we issued 18 QCRs.

Our investigations office opened 16 new cases and closed 31 cases during the reporting period. The investigations involved a variety of criminal and regulatory matters, including fraud, false claims, the unauthorized practice of law, and program integrity violations. One conviction was obtained during the period on a case arising from an OIG investigation.

We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. We maintained an active calendar of grantee visits, including fraud awareness briefings and vulnerability assessments, and issued one fraud alert and two "Fraud Corner" articles. Our investigations also led to LSC's recovery of misspent grant funds.

I wish to express my appreciation to all the members of the Board of Directors for the interest and support they have shown for the work of the OIG. I also remain deeply appreciative to the Congress for its steadfast support of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey E. Schanz". The signature is fluid and cursive, with the first name "Jeffrey" being the most prominent part.

Jeffrey E. Schanz  
Inspector General  
April 30, 2019

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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 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 2019 appropriation (exclusive of OIG operations) was \$409.9 million. LSC received an additional \$15 million in disaster relief grant funding. 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, for example 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

As discussed below, during this reporting period the OIG issued two reports with respect to grantee operations and a vulnerability assessment of a grantee's IT network. At the conclusion of the period, we had seven projects underway.

The OIG has responsibility for overseeing the independent public accountant (IPA) audits performed annually at each grantee. During the reporting period, we reviewed 23 IPA reports, with fiscal year ending dates ranging from December 31, 2017, through September 30, 2018.

We issued 18 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.

### **Inland Counties Legal Services, Inc.**

The OIG assessed the adequacy of selected internal controls in place at Inland Counties Legal Services, Inc. (ICLS). The onsite work was conducted at the grantee's administrative office, located in Riverside, California. While some of the controls were adequately designed and properly implemented, we found that controls in the areas detailed below needed to be strengthened and/or formalized in writing.

We identified the following as areas that needed improvement:

- ICLS charged unallowable membership fees totaling \$11,000 to LSC. (ICLS subsequently reallocated the membership fees, after the OIG brought this matter to their attention.)
- ICLS reissued 27 checks totaling \$53,108 without issuing stop payment orders on the initial lost checks.
- ICLS did not obtain prior approval from LSC for the purchase of 60 computers. The purchases were made via two transactions in 2017, each of which exceeded LSC's \$10,000 pre-approval threshold. The ICLS accounting manual also needed to be updated to reflect revisions to LSC regulations regarding pre-approval thresholds.
- ICLS lacked the requisite segregation of duties over maintenance of the master vendor list.

- Although ICLS' written policies and procedures regarding the allocation of derivative income, including attorneys' fees, were consistent with LSC regulations, the grantee did not always adhere to the written policies.
- During onsite testing, the OIG was unable to make a physical observation of several information technology items in the grantee's property records. The grantee subsequently provided information to verify the items' existence, however a few discrepancies remained.
- ICLS did not perform cost allocations in accordance with the LSC Accounting Guide. The grantee allocated all administrative salaries to LSC, even though these positions supported work funded by more than one grant.
- Of the 16 contracts reviewed, all lacked adequate documentation as to one or more elements of the contracting process, as follows:
  - One sole-source contract did not have a sole-source justification on file.
  - Two contracts did not include the rate, description of work, and timeframe for the completion of work.
  - Contracts were missing for four vendors.
  - Seven contracts had no documentation of required approvals.
  - Thirteen contracts had no documentation of bids.
- ICLS' written policies and procedures had inadequacies in the following areas: cost allocation; internal reporting and budgeting; disbursements; fixed assets; contracting; general ledger and financial controls; and credit cards.
- ICLS had not developed or implemented a budgeting process that met the requirements of LSC's Fundamental Criteria. Management reports were not being prepared in a timely manner. In addition, there was a discrepancy between written policy and actual practice. Although the ICLS accounting manual provided that two financial management reports were to be prepared quarterly, the grantee was no longer preparing these reports.
- ICLS did not perform timely bank reconciliations. Seven of the 15 bank reconciliations reviewed were not prepared in a timely manner. In addition, there were 12 outstanding checks over six months old.
- ICLS did not obtain requisite approval for four of 22 tested credit card transactions, totaling \$225. Also, four of the tested transactions totaling \$229 did not have adequate supporting documentation.



The OIG made 18 recommendations:

- Four recommendations related to disbursements, addressing the need:
  - to ensure that unallowable costs are not charged to LSC;
  - to enforce the stop payment policies over lost checks, or determine a cost-efficient alternative to prevent duplicate payments of disbursements;
  - to update the policies in the ICLS accounting manual; and
  - to ensure there is an appropriate segregation of duties between the person maintaining the master vendor file and the person making payments.
- One recommendation related to derivative income, addressing the need to ensure that staff follow the methodology to allocate derivative income and attorneys' fees as set forth in the grantee's accounting manual.
- One recommendation related to fixed assets, addressing the need to ensure all sensitive equipment is appropriately tracked and that fixed asset records and the general ledger are adjusted for those assets that have been retired.
- One recommendation related to cost allocation, addressing the need to ensure the practices used to allocate costs to funding sources are consistently applied and follow ICLS' written policies.
- Three recommendations related to contracting, addressing the need to ensure:
  - that contract agreements are written, signed, and maintained and fully document all agreed-upon terms;
  - that the process for each contract action is fully and appropriately documented (*e.g.*, with written justifications for sole-source acquisitions or documentation of competition, if competitively bid); and
  - that a centralized filing system is maintained for all contracts.
- Three recommendations related to internal reporting and budgeting, addressing the need to ensure:
  - that an annual budget is developed, that assumptions are documented, top management is involved, and approvals are obtained from the board of directors;
  - that ICLS' accounting manual is updated to reflect reports actually prepared; and
  - that all management reports are prepared timely after month-end.

- Two recommendations related to general ledger and financial controls, addressing the need to ensure:
  - that bank reconciliations are performed monthly, with documentation of preparation, review, and approval; and
  - that ICLS adheres to the policy of investigating outstanding checks and subsequently following up to void or reissue any checks outstanding for more than six months.
  
- Two recommendations related to credit cards, addressing the need to ensure:
  - that requisite approval is obtained prior to payment of a credit card statement; and
  - that adequate supporting documentation is attached to all transactions.
  
- One recommendation addressed the need to ensure that written policies and procedures are included within the grantee's accounting manual, and that they adequately describe processes and controls, reflect staff's specific duties, and are in accord with the LSC Accounting Guide and Fundamental Criteria.

The grantee agreed with all 18 recommendations. The grantee completed corrective actions for 11 recommendations. The OIG considers these 11 recommendations closed. The grantee's proposed actions for seven recommendations were partially responsive; these will remain open pending appropriate action and receipt of supporting documentation.

### **North Penn Legal Services, Inc.**

The OIG assessed the adequacy of selected internal controls in place at North Penn Legal Services, Inc. (NPLS). The onsite work was conducted at the grantee's administrative office, located in Pittston, Pennsylvania. While some of the controls were adequately designed and properly implemented, we found that controls in the areas detailed below needed to be strengthened and/or formalized in writing.

We identified the following as areas that needed improvement:

- NPLS had inadequate documentation and approval over contracting. Six contracts totaling \$21,416 were charged to LSC, as follows:
  - Five contracts with payments totaling \$11,956 had no contract agreements on file.
  - None of the six contracts had documentation on file of the process used for each contract action.

- Five contracts with payments totaling \$11,956 had no documentation of approval on file.
  - Three contracts with payments totaling \$16,872 had inadequate statements of work and lacked processes to verify that deliverables were received.
  - None of the six contracts had documentation of competition or sole-source justification on file. Five contracts with payments totaling \$19,047 required competition and one totaling \$2,368 was sole-sourced.
- NPLS' sole-sourced contract for janitorial services, with payments totaling \$8,535, appeared to have had a potential conflict of interest. The contractor was the spouse of the systems administrator. There was no documentation as to contractor selection, contract administration, or disclosure to management or the board for consideration of the apparent conflict of interest, or to reflect whether the systems administrator was recused from the selection process and administration of the contract.
  - NPLS' contracting policies and procedures over contracting did not include dollar thresholds.
  - NPLS had LSC-unallowable costs in 13 credit card transactions totaling \$1,067. These transactions included purchases of flowers and payment of late fees, interest charges, and an unallowable membership fee. Due to lack of sufficient accounting system documentation of expense allocations to determine the funding source, the full amount qualified as an unallowable cost. The OIG referred this amount to LSC management as a questioned cost.
  - NPLS lacked documented approvals for 71 credit card transactions, as follows:
    - Fifty-four transactions totaling \$16,824 had no purchase orders.
    - Seventeen transactions totaling \$2,462, relating to travel and business meals, had missing expense reimbursement forms.
  - NPLS' written policies and procedures over credit cards did not cover cash advances and ATM withdrawals, nor was there a policy regarding when receipts for credit card purchases were to be submitted.
  - NPLS did not establish a credit card user acknowledgement form by which authorized card users agree to accept and abide by the grantee's policies and procedures governing the use of credit cards.
  - NPLS had 77 disbursement transactions totaling \$127,286 that lacked documented approvals.

- NPLS did not use their fund accounting software to its full capabilities. In particular, there were no journal entries related to allocations within the financial software. As a result, there was not an adequate audit trail. The OIG was not able to trace transactions within the financial software to determine whether the cost allocation was made in alignment with the grantee's allocation methodology and formula, or whether indirect costs were being correctly accounted for within the financial software.
- NPLS' cost allocation policies and procedures did not provide for allocating LSC-unallowable costs.
- NPLS did not perform allocation journal entries on derivative income and attorneys' fees within the financial software. As a result, the OIG was unable to trace and verify whether the derivative income and attorneys' fees were allocated in the proper proportion.
- NPLS did not perform timely bank reconciliations and had inadequate documentation of the bank reconciliation review and approval process in both the operating and payroll accounts. For the operating account, five of six bank reconciliations reviewed were 16 to 45 days late. In addition, the reconciliation records did not have a preparer's signature and date to reflect that the reconciliations were performed on the 15<sup>th</sup> of each month. The grantee did not perform bank reconciliations for the payroll account at all during the fiscal year ending June 30, 2018; an annual reconciliation was subsequently performed for the account in September 2018.
- NPLS' operating bank reconciliation records from January 2018 revealed that 15 checks totaling \$2,990 had been outstanding from prior years. Four totaling \$1,468 had been outstanding since 2015, five totaling \$802 had been outstanding since 2016, and six totaling \$720 had been outstanding since 2017.
- NPLS' budget projections presented to management within the fiscal year ending June 30, 2017, were not prepared by cost center or funding source. The budget projections also failed to provide information on the balance of projected expenses, projected total expenses for the year, and projected variance over or under budget for the year.

The OIG made 16 recommendations:

- Four recommendations related to contracting and addressed the need:
  - to ensure that all contracts have proper documentation on file, including approvals, contract agreements, process and procedures for selection,

competitive bids or sole-source justification, and adequate statements of work;

- to consider the janitorial service contract for competitive bidding, and provide and maintain adequate documentation of the contract and contracting process, including sole-source justifications if not competitively bid;
  - to enhance the Code of Conduct in Purchasing policy to preclude even the appearance of a conflict of interest, and include in the policy a requirement to disclose to upper management or the board, in writing, the material facts of any potential conflicts of interest; and
  - to update the written policy over contracting to include a dollar threshold.
- Four recommendations related to credit cards and addressed the need:
    - to ensure that LSC-unallowable costs are charged to funding sources other than LSC and reflected within the financial software to provide an audit trail;
    - to ensure that the required approvals are documented and retained on file, and policies and procedures are updated to reflect current practices related to the new paperless system;
    - to update the NPLS financial management manual to include policies and procedures governing the permissible use of ATM withdrawals and cash advances, and specify when receipts for credit card purchases should be submitted to financial staff; and
    - to require and maintain a signed acknowledgement agreement for each authorized credit card user governing conditions and limitations for use of the card, including repayment terms.
  - One recommendation related to disbursements and addressed the need to ensure that required approvals are documented and retained on file, and that the policies and procedures are updated to reflect practices related to the new paperless system.
  - Two recommendations related to cost allocation and addressed the need:
    - to ensure the accounting system was being fully utilized to provide an audit trail for all transactions so that costs can be accounted for and are traceable within the financial software; and
    - to update written policy to include specific procedures for the administration and allocation of LSC-unallowable costs.

- One recommendation related to derivative income and addressed the need to ensure that the accounting system is being fully utilized to provide an audit trail for allocating and recording derivative income and attorneys' fees within the financial software.
- Two recommendations related to general ledger and financial controls and addressed the need to ensure:
  - that reconciliations for all bank accounts are completed every month, and that the records provide adequate information, including documentation of the persons performing and reviewing the reconciliations, and the date of each activity; and
  - that checks outstanding for more than six months are investigated and resolved, and that the record of outstanding checks includes adequate documentation, such as the date, check number, payee, and amount.
- Two recommendations related to management reporting and budgeting and addressed the need to ensure:
  - that the budget is built from cost center or funding source to create a total budget that coincides with the format of the management reports; and
  - that the budget includes projections for expenses remaining, total expenses for the year, and variances over or under budget for the year on a quarterly basis.

NPLS agreed with all 16 recommendations. The grantee's corrective actions regarding two recommendations were completed and the OIG considers these two recommendations closed. The OIG considers the grantee's proposed actions to one recommendation as partially responsive and to 13 recommendations as fully responsive. These 14 recommendations will remain open until appropriate supporting documentation is provided.

Although the grantee management's proposed actions were responsive to the recommendation related to credit cards, the OIG questioned a total of \$1,067 in credit card transactions. As noted above, this amount was referred to LSC management for resolution.

### **Vulnerability Assessments of Grantee Computer Networks**

We continued a program, begun in 2016, of conducting vulnerability assessments of grantees' computer networks. Working with a specialized contractor, we performed assessments this period on one grantee's system. The tests scanned for potential vulnerabilities in the system's architecture, technologies, and processes, from both

outside and within the grantee's network.

The assessment found that the tested site generally did not present a high-level risk of exposure from outside the network. A limited number of medium- or low-level vulnerabilities were found in the external boundaries of the grantee's network. The more critical vulnerabilities discovered at the grantee's site were internal to their network environment. These principally resulted from an unsupported server and/or missing new security patches and updates, and outdated virtual private network (VPN) clients.

A complete list of potential issues and vulnerabilities was provided to the grantee for review and remediation. A list of corrective actions and best practices was also provided to the grantee.

## **Statistical Summary**

### **Audits**

Open at beginning of reporting period .....	5
Opened during the period .....	5
Audit reports issued or closed during reporting period .....	3
Open at end of reporting period .....	7

### **Recommendations to LSC Grantees**

Pending at beginning of reporting period .....	21
Issued during reporting period .....	34
Closed during reporting period .....	19
Pending at end of reporting period .....	36

### **Recommendations to LSC Management**

Pending at beginning of reporting period .....	10
Issued during reporting period .....	0
Closed during reporting period .....	0
Pending at end of reporting period .....	10



## **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 independent public accountant (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 onsite reviews.

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

The OIG conducts desk reviews of all IPA reports issued to grantees. This process enables us to identify and forward significant IPA findings to LSC management as necessary. We also track recommendations to determine whether appropriate responsive actions have been taken. We use information from the review of the IPA reports as part of our risk assessment and planning processes, identifying potential problems or concerns that may warrant follow-up via audit, investigation, or other review.

### **Quality Control Reviews**

We continued the eighth year of our Quality Control Review (QCR) initiative. Under this 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 CPA firm under contract to 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 18 QCRs of FY2017 audited financial statements.

Six QCRs met standards with no exceptions. Twelve of the QCRs met standards with one or more exceptions, ten of which required the IPA to perform additional work and provide documentation to support their conclusions. We evaluated and accepted the additional work and documentation submitted by three of the ten IPAs during this reporting period. We accepted three of the audits as a result. Of the remaining seven

IPAs, the additional work performed by them was not due to the OIG until after the close of this reporting period. For two of the twelve QCRs that met standards with exceptions, we issued recommendations to the IPAs to implement in future audits of grantees.

During the previous reporting period, we found that two of the grantee's financial statement audits for the fiscal year ending 2016 met standards with exceptions. The OIG issued notices to the IPAs requiring them to perform corrective action and provide additional information to address the deficiencies. We evaluated the additional work performed by the IPAs in this reporting period and accepted both audits.

### **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. 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**

In order to provide more complete information in our semiannual reports to Congress, the OIG customarily includes 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 23 IPA audits of grantees with fiscal year ending dates from December 31, 2017, through September 30, 2018. Of the 23 audits, two are sub-recipients of LSC funds. These audit reports contained 13 findings. The OIG reviewed the findings and determined that three were either not significant, or that corrective action had already been completed. The remaining 10 findings were referred to LSC management during the period for follow-up. The following tables present information on those findings.

**Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2017, through September 30, 2018**

Total Number of Findings Referred .....	10
Number of Findings with Corrective Action Accepted by LSC Management .....	10
Number of Findings Awaiting LSC Management Review .....	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 .....	10

## **INVESTIGATIONS**

During this period, OIG investigations resulted in a guilty plea and a questioned cost determination regarding an improper procurement in the amount of \$5,058. The latter investigation also resulted in LSC management requiring the grantee to implement policy changes aimed at strengthening certain internal controls and better protecting against fraud.

The OIG opened 16 cases during the period. These included eight investigative cases, two Regulatory Vulnerability Assessments, two Fraud Vulnerability Assessments, two questioned cost cases, and two compliance cases. The investigative cases included allegations of contracting fraud, fraudulent travel claims, payroll fraud through phishing, computer hacking, program integrity violations, the unauthorized outside practice of law, time and attendance fraud, and other potential violations of LSC statutes and regulations.

The OIG closed 31 cases during the reporting period. These included 22 investigative cases, three Regulatory Vulnerability Assessments, and five Fraud Vulnerability Assessments, and one questioned cost case. The OIG also issued several fraud prevention advisories during this reporting period. These included one fraud alert and two fraud corner articles.

### **Criminal Proceedings**

#### **Guilty Plea of Former Director of Information Technology**

As reported in our October 2018 Semiannual Report to Congress, an OIG investigation led to the indictment of an LSC grantee's former director of information technology (IT).

The investigation found that the former director of IT used the grantee's credit card to make numerous purchases of sports memorabilia, which he then sold for personal profit. He created fake invoices so that the purchases appeared to be legitimate business-related purchases. He was indicted on multiple counts of theft of government property and theft from a program receiving federal funds.

On March 22, 2019, the former employee pled guilty to one count of theft of government property. Under the terms of the plea agreement, the former employee is required, among other things, to make full restitution of over \$16,650 to the grantee, and to not seek or obtain employment by any government entity (federal, state, or local), or any private entity in which his compensation is provided by government funding (federal, state, or local). Sentencing is scheduled for August 2, 2019.

## **Recovery Actions**

### **Questioned Cost Determination – “Finder’s Fee” on a Grantee Contract**

An OIG investigation, last reported in our October 2018 Semiannual Report to Congress, identified potential unallowable costs incurred by a grantee due to a consultant having received a \$14,450 “finder’s fee” from an IT vendor in return for steering two contracts to this favored vendor. The investigation determined that had the consultant not taken the fee, the grantee would have received a discount on the contract price in the equivalent amount of \$14,450. The investigation also determined that the consultant provided the vendor confidential billing information in an effort to influence the grantee’s selection of the favored vendor’s bid.

LSC management made a final determination to disallow \$5,058 of the \$14,450. This amount represented the portion of the “finder’s fee” funded by LSC.

Also, as a result of the OIG’s questioned cost referral, LSC imposed special grant conditions on the grantee, requiring that they develop and implement a policy providing that all IT purchases or contracts totaling \$500 or more be reviewed and approved by their board of directors; that they adopt a policy prohibiting employees, including temporary employees and consultants, from receiving finder’s fees or other types of commission payments from any entity with which the grantee conducts business; and that the grantee submit a conflict of interest policy for LSC’s review and approval.

## **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). We provide fraud alerts and other information to help increase grantees’ awareness of developing trends that may pose a risk to LSC funds. The OIG also developed a new fraud prevention initiative, “The Fraud Corner.”

### **Fraud Awareness Briefings**

FABs are presented by experienced OIG investigative staff and cover 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

to occur within their own programs. FABs highlight the unfortunate truth that a number of LSC-funded programs have been victimized by frauds involving hundreds of thousands of dollars, and in one case the diversion of over a million dollars in grant funds.

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 158 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, LSC headquarters personnel, a presentation at a National Legal Aid and Defender Association annual conference, and seven webinars that reached multiple grantees.

Two FABs were completed at a grantee and one FAB webinar was provided for new LSC grantee executive directors and other employees at seven grantees during this reporting period.

### **Fraud Vulnerability Assessments**

FVAs are conducted at LSC grantee offices and 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 actually 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.

Five FVAs were closed during the reporting period.

### **Regulatory Vulnerability Assessments**

We began conducting RVAs based 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, conducted at grantee offices, 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.

Three RVAs were closed during the reporting period.

### **Management Information Memorandum**

The OIG issues management information memoranda (MIMs) when we believe that matters uncovered in the course of ongoing work should be brought to management's attention. During the last reporting period, we issued a MIM regarding a restrictive clause found in some medical legal partnership (MLP) agreements between grantees and health care providers. We found that such clauses may prevent grantees from representing otherwise eligible clients in actions adverse to the providers' interests. We also pointed out the potential risk to grantees if their personnel were unaware of the clauses. We recommended that LSC consider providing guidance to grantees regarding these clauses.

In response to our MIM, on November 14, 2018, LSC management issued an advisory opinion (AO-2018-002). The opinion recognized the benefits of MLPs as "highly effective vehicles for providing collaborative health and legal services and encourage[d] the creation and maintenance of them." Although our MIM had suggested that LSC advise grantees having MLPs with restrictive clauses to consider renegotiating or modifying those terms, the opinion, noting that LSC leaves it to grantees to set case priorities (consistent with the factors set forth in LSC regulations), concluded that neither the LSC Act nor LSC regulations prohibit such clauses and stated that LSC had no legal basis for advising grantees to accept or reject them. Nonetheless, the opinion went on to caution that before entering into agreements containing restrictive clauses, grantees should understand the implications they may have on potential clients. It also advised grantees to review their MLP agreements to identify any restrictive clauses and ensure their staff members were aware of their terms, to preclude any violation of the MLP contract.

### **Fraud Alert on Local Travel**

A fraud alert was issued to executive directors and their boards of directors to inform grantees of issues related to local travel and to encourage grantees to adopt a policy related to local travel in order to prevent fraud, waste, and/or questioned costs.

The fraud alert informed grantees of past OIG investigations that identified employees engaging in fraud by submitting false local travel claims and by claiming local travel for

items that should not have been reimbursable. The alert also provided guidance to grantees on best practices relating to local travel policies and oversight.

### **“The Fraud Corner”**

The OIG has expanded its website to include a new webpage titled, “The Fraud Corner,” which highlights fraud prevention issues identified through our investigative activities. This reporting period we posted two new articles to the webpage and notified all executive directors and LSC management of the new posts.

The first article described recent email phishing scams targeting LSC and LSC grantee payroll and direct deposits. The second article related to the requirements for and benefits of grantees performing bank reconciliations, and also recommended the use of a positive pay system as a means of helping to identify and prevent check and bank frauds. Under positive pay, when a customer issues payroll or other types of checks, it sends a check register list to the bank. The register allows the bank to verify that the checks it processes are funded properly and protects the customer against forged, altered, and counterfeit checks.

### **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 provider’s identity will be kept confidential. Reports may also be made anonymously.

During this reporting period, the OIG received 52 Hotline contacts. Of these matters, 16 were referred to LSC management for follow-up, 11 were opened as investigations, and the remaining 25 were closed.



## Statistical Summary

### Investigative Cases

Open at the beginning of period .....	37
Opened during period .....	16
Closed during period .....	31
Open at the end of period .....	22
Investigative reports issued.....	23

### Prosecutorial Activities

Referrals pending at the beginning of the period .....	1
Persons referred to DOJ for criminal prosecution .....	0
Persons referred to state and local prosecuting authorities for criminal prosecution .....	0
Referrals declined during the period .....	0
Referrals accepted during the period .....	1
Referrals pending at the end of the period .....	0
Guilty Pleas .....	1

### Investigative Activities

Inspector General subpoenas issued.....	7
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### Monetary Results

Questioned Cost Determination .....	\$5,058
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### Metrics

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 three FOIA requests; we responded to all within the requisite timeframes. Additionally, the OIG received two FOIA appeals (one shortly before the end of the last reporting period) and timely responded to both.

### **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 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.

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 Special Inspector General for Afghanistan Reconstruction. Its report was issued on August 14, 2017. 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 to Better Use</u>	<u>Unsupported Costs</u>
Inland Counties Legal Services, Inc.	12/06/2018	\$0	\$0	\$0
North Pennsylvania Legal Services, Inc.	3/27/2019	\$1,067	\$0	\$0

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

<u>Report Title</u>	<u>Date Issued</u>	<u>Description</u>
IT Vulnerability Assessments	10/24/2018	Vulnerability assessments of grantees' computer networks conducted by a contractor for the OIG, including identification of potential issues and vulnerabilities and recommended corrective actions.

**TABLE I**  
**Part C**  
**Quality Control Reviews**

	<b><u>IPA</u></b>	<b><u>Recipient</u></b>	<b><u>Date Issued</u></b>
1	Bollus Lynch LLP	Community Legal Aid, Inc.	10/26/2018
2	Purvis, Gray & Company, LLP	Three Rivers Legal Services, Inc.	10/26/2018
3	Maher Duessel, CPAs	Neighborhood Legal Services Association	01/04/2019
4	Moss Adams LLP	Legal Aid Society of San Diego, Inc.	01/16/2019
5	Brown, Ewing & Co., P.A.	Mississippi Center for Legal Services	01/16/2019
6	Brown, Ewing & Co., P.A.	North Mississippi Rural Legal Services, Inc.	01/16/2019
7	Deloitte & Touche LLP	Guam Legal Services Corporation	01/23/2019
8	Reeder & Associates, PA	Legal Services of North Florida, Inc.	01/30/2019
9	Reeder & Associates, PA	Bay Area Legal Services, Inc.	01/30/2019
10	Watkins Uiberall, PLLC	Memphis Area Legal Services, Inc.	02/01/2019
11	Deloitte & Touche LLC	Micronesian Legal Services, Inc.	02/01/2019
12	Deloitte & Touche LLC	American Samoa Legal Aid	02/25/2019
13	Keefe McCullough & Co., LLP	Coast to Coast Legal Aid of South Florida, Inc.	03/11/2019
14	N&K CPAs, Inc.	Legal Aid Society of Hawaii	03/11/2019
15	Mitchell Emert & Hill, P.C.	Legal Aid of East Tennessee	03/15/2019
16	Padilla, Medina & Associates, P.S.C.	Puerto Rico Legal Services, Inc.	03/29/2019
17	Ortiz, Rivera, Rivera & Co.	Community Law Office, Inc.	03/29/2019
18	Dana F. Cole & Company, LLP	Legal Aid of Nebraska	03/29/2019

## 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.	0	\$0	\$0
B. Reports issued during the reporting period	1	\$1,067	\$0
Subtotals (A + B)	0	\$0	\$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	\$1,067	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

### TABLE III

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

	<u>Number of Reports</u>	<u>Dollar 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
For which no management decision had been made within six months of issuance	0	\$0

## TABLE IV

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

— NONE FOR THIS PERIOD —

## TABLE IV

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

<u>Report Title</u>	<u>Date Issued</u>	<u>Findings Summary<sup>1</sup></u>	<u>Comments</u>
Statewide Legal Services of Connecticut	3/26/18	A, D, F, G, J, K, L, P	Corrective action in process.
Puerto Rico Legal Services, Inc.	3/30/18	A	Corrective action in process.
Audit of LSC Purchase Cards	9/28/18	A, Q, R	LSC Management requested an extension of 60 days to respond to OIG recommendations.

**Legend:**

A = Written Policies & Procedures	B = Disbursements	C = Contracting	D = Fixed Assets	E = Derivative Income
F = Credit Cards	G = Cost Allocation	H = General Ledger & Financial Controls	I = Client Trust Funds	J = Segregation of Duties
K = Internal 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.



## TABLE V

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

<u>IG Act 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.	3-11, 16-20
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-11
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	28
Section 5(a)(4)	Matters referred to prosecutive authorities.	16, 21
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.	24
Section 5(a)(7)	Summary of each particularly significant report.	3-11
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs.	26
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	27
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.	None
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.	28
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.	23

Section 5(a)(17)-(18)	Statistical tables on investigations.	21
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

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



On October 1, 2017, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) announced the official launch of [Oversight.gov](https://www.oversight.gov). This new website provides a “one stop shop” to follow the ongoing oversight work of all Inspectors General that publicly post reports.

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 the launch of Oversight.gov, users can now 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. In addition, the site features a user-friendly map to find reports based on geographic location, as well as contact information for each OIG’s hotline. Users can receive notifications when new reports are added to the site by following CIGIE’s new Twitter account, [@OversightGov](https://twitter.com/OversightGov).



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