

Office of Inspector General

LEGAL SERVICES CORPORATION

Semiannual Report to the Congress

October 1, 1997 – March 31, 1998

<http://oig.lsc.gov/>

April 30, 1998

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

This Semiannual Report (SAR) on the activities of the Office of Inspector General (OIG) of the Legal Services Corporation (LSC) covers the six-month period from October 1, 1997 through March 31, 1998. Section 5 of the Inspector General Act of 1978 requires that the board of Directors, as the designated Federal entity head, transmit this report to the appropriate committees of the Congress within 30 days, together with its report commenting on the contents of the SAR.

Edouard R. Quatrevaux
Inspector General

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EXECUTIVE SUMMARY

An oversight report summarizing the 277 grantee audit reports submitted by independent public accountants was issued. (Page 3)

A summary report on OIG compliance audits of 12 grantees was issued, as were audit reports of two of those grantees. (Page 3, 4)

An inspection report on Alternative Work Arrangements was issued. (Page 5)

Working under OIG oversight, an independent public accounting firm completed the annual audit of LSC financial statements and issued its final reports. (Page 5)

Three prosecutive referrals were made, one resulting in a conviction. A prosecutive referral from a prior period was declined by the U.S. Attorney. (Page 7)

INTRODUCTION

Corporate Structure

The Board of Directors of the Corporation is composed of 11 members appointed by the President of the United States with the advice and consent of the Senate. The Board sets general policy and oversees the management of the Corporation. The Inspector General reports directly to the Board in its capacity as head of the entity. The Board also appoints the President of the Corporation, who serves as the principal management official of the Corporation.

Grant-Making Activities

The Corporation is authorized by Congress to make grants and contracts to support the provision of civil legal assistance to clients who meet eligibility requirements. The Corporation makes grants to entities that, in turn, provide legal assistance to indigent persons throughout the United States, Puerto Rico, the U.S. Virgin Islands, Guam, and Micronesia.

Certification of Independence

Inspector General operations in this period were free of personal or organizational impairment. However, the threat of such impairments was raised by the nature of the criticisms contained in the IG's performance evaluation by the LSC Board of Directors. The evaluation criticized the Inspector General for appropriate communications with Congress and defense of IG independence and statutory authorities. The matter was reported to the appropriate committees of Congress.

AUDITS

The OIG issued five audit reports and one inspection report during this reporting period. In addition, an independent CPA firm, working under our oversight, completed the Corporation's annual financial audit and issued its reports.

Summary Report on Review of Independent Public Accountants Reports

In February 1998, the OIG issued a summary oversight report, "*Results of Audit Reports for Recipients With Fiscal Years Ending December 31, 1996 Through September 30, 1997.*" This report presented the results of the audits performed by Independent Public Accountants (IPAs) in accordance with the 1996 appropriations statute (PL 104-134). The IPAs reported that almost all grantees complied with the Congressionally imposed restrictions on providing certain types of legal services.

Summary Report on OIG Compliance Audits

The *Summary Report on Audits of Selected Grantees for Compliance with Selected Regulations* presented the results of two OIG audits covering 12 grantees. A performance audit examined grantee compliance with key restrictions contained in appropriations acts. A financial audit examined whether grantees had provided resources to support restricted activities within their own or other organizations.

The audits determined:

that one grantee did not have adequate controls in place to ensure compliance;

that one grantee continued representation in two class action cases;

that certain LSC regulations do not accommodate unique circumstances pertaining to juveniles and to adults judged mentally incompetent; and

that LSC management cannot determine and LSC grantees cannot ensure that part-time employees of grantees do not work on restricted or prohibited cases while receiving LSC funds for their services.

The audits recommended that LSC take appropriate action with respect to the two grantees cited above, and evaluate the need for clarification to the cited regulations. LSC management agreed with these recommendations. The audit also recommended that LSC require part-time employees of grantees to account for all hours worked by date and time of day for both payroll and case timekeeping records. LSC management agreed and stated that it would propose regulatory changes to the LSC Board of Directors at its June 1998 meeting.

Legal Aid Society of Alameda County

The audits found that the Legal Aid Society of Alameda County did not have adequate controls in place to ensure compliance with LSC regulations on prohibited activities. As a result, the audit was unable to determine if LASAC divested its restricted cases, ceased involvement in restricted activities by the statutory deadline, or paid other organizations to handle restricted activities. The audit made 12 recommendations to the grantee and also recommended that LSC management take appropriate action.

Legal Assistance Foundation of Chicago (2 Reports)

The performance audit found that this grantee continued representation in two class action suits beyond the deadline for divestiture. Both cases began as non-adversarial monitoring, which is permitted by LSC regulation, but became adversarial after August 1, 1996. The audit recommended that LSC management take corrective action. The financial audit found no indication that funds were used for prohibited activities or cases, except for the two cases noted above.

Inspection of Alternative Work Arrangements

The Inspection found that LSC's FlexiTime and FlexiPlace implementation of this program was a good first effort, but that further improvements could be made. With few exceptions, the Inspection also concluded that required documentation was in place, and that no evidence was found of noncompliance, inadequate supervision, or that LSC needs were being jeopardized by the work schedules. The report recommended that LSC management consider more flexible options and take corrective action on some procedural and documentation problems.

LSC Financial Statement Audit

The independent CPA firm that audited the corporate financial statements issued an unqualified opinion on the statements. This means that LSC's financial statements were fairly presented and free of material errors. Separate reports on 1) Compliance with Laws and Regulations and 2) Internal Controls reported no material weaknesses.

Peer Review

Government Auditing Standards require that the OIG's audit work be reviewed by an independent external audit organization every three years. As assigned by the Executive Council on Integrity and Efficiency, the Pension Benefit Guaranty Corporation's OIG conducted a peer review of our audit operations in this period. A report will be issued next reporting period.

AUDIT REPORTS AND OTHER AUDIT-RELATED PROJECTS

<i>Open at beginning of reporting period</i>	5
<i>Opened during reporting period</i>	4
<i>Closed during reporting period</i>	<8>
<i>Open at the end of reporting period</i>	1

RECOMMENDATIONS TO LSC GRANTEES

<i>Pending beginning of reporting period</i>	12
<i>Reported during this period</i>	14
<i>Closed during reporting period</i>	<12>
<i>Pending at end of reporting period</i>	14

RECOMMENDATIONS TO LSC MANAGEMENT

<i>Pending beginning of reporting period</i>	4
<i>Reported during this period directed to LSC Management</i>	16
<i>Closed during reporting period</i>	<9>
<i>Pending at end of reporting period</i>	11

Prior Period Recommendations

There were no open recommendations from prior reporting periods.

INVESTIGATIVE ACTIVITIES

During this period, 21 cases were opened and 31 were closed. The majority of the cases resulted from information on losses (thefts and burglaries) provided by grantees in accordance with grant assurances. The remainder resulted from information obtained from other sources, including referrals from LSC management and calls or letters to the OIG Hotline. The Hotline was contacted 49 times.

Following the theft of client trust funds by an employee at a branch office of an Oklahoma grantee, the employee entered a plea of *nolo contendere* and was placed on unsupervised probation for five years. This case followed another theft of client trust funds by a former employee at the same Oklahoma branch office.

Embezzlement of client trust funds by a former employee of an Arkansas grantee resulted in a prosecutive referral and restitution to the grantee in the amount of \$2,068.

An OIG investigative referral involving the misappropriation of approximately \$25,000 of program funds by a former employee of a grantee in Connecticut resulted in a prosecutive referral to the District Attorney's office.

A case involving the falsification of travel documents by an employee of a grantee in Alabama, referral of which had been requested by the U.S. Attorney's Office for its Pre-trial Diversion program, resulted in a declination due to the small amount of money involved in the case.

Investigative Recommendation

An investigative recommendation from a prior reporting period was resolved shortly after the close of this reporting period. The recommendation followed the third incident of theft of computer and related equipment at LSC in less than two years. Management has informed the OIG that it has accepted and moved to implement the recommendation that LSC employees wear photo identification and that LSC guests wear Visitor Pass identification.

INVESTIGATIVE CASELOAD

<i>Open at beginning of reporting period</i>	22
<i>Opened during reporting period</i>	21
<i>Closed during reporting period</i>	<31>
<i>Open at end of reporting period</i>	12

INVESTIGATIONS OPENED

<i>Relating to LSC</i>	1
<i>Relating to LSC Grantees</i>	20

RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION

<i>Reported during this reporting period</i>	0
<i>Pending from previous period</i>	1
<i>Closed during this period</i>	1
<i>Pending at end of reporting period</i>	0

PROSECUTIVE ACTIVITIES

<i>Referred for prosecution this reporting period</i>	3
<i>Prosecution declined (from prior period referral)</i>	1
<i>Pending Action</i>	2
<i>Convictions</i>	1

LEGISLATIVE AND REGULATORY REVIEW

As previously reported, the OIG has been actively involved in LSC's regulatory process to implement changes required in LSC's annual appropriations acts. The OIG continued these efforts in the current reporting period by providing LSC management with comments on all drafts of regulations. OIG suggestions were aimed at ensuring that the regulations implement the intent of Congress and facilitate both compliance and the monitoring of compliance of LSC recipients. The OIG also has provided comments on the interpretive guidance which LSC management provided to grantees.

Access

Our last SAR reported that the Inspector General had been denied access to recent litigation reports prepared by the Corporation's General Counsel and submitted to the Board of Directors. The requested reports were received in this period. We continue to believe that disputes of this nature at this and other OIGs could be eliminated by a legislative clarification of the effect of common law privileges, such as attorney client, on the IG's statutory right of access to agency information and documents.

PROGRAM ASSESSMENT

Two projects were completed during this period. The first was a preliminary review of LSC's case statistics and the availability of information pertinent to the delivery of legal services to low-income persons. This review was in partial fulfillment of the strategic plan project of evaluating information relating to grant recipients and service delivery. In addition, the review will assist OIG audit work and provide background necessary for other assessment projects scheduled in the OIG strategic plan.

The second project was to carry out the OIG's commitment in its strategic plan to assess grantees' views of, and satisfaction with, the efforts of the LSC OIG. A survey was sent to all grantees in January, and in February a report on the results was posted on OIG's website (<http://oig.lsc.gov/>). In March, a report aggregating OIG staff answers to survey respondents' questions and comments was added to the website.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 1998**

	NUMBER	QUESTIONED	UNSUPPORTE
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	0	\$0	\$0
Subtotals (A + B)	0	\$0	\$0
LESS:			
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	0	\$0	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

TABLE II

**Audit Reports Issued with Funds to be Put to Better Use
for the Period Ending March 31, 1998**

	NUMBER REPORTS	Dollar Value
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
LESS:		
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
Reports for which no management decision had been made within six months of issuance	0	\$0

TABLE III

Index to Reporting Requirements
of the Inspector General

IG Act*** Reference	REPORTING REQUIREMENT	PAGE
Section 4(a)(2)	Review of legislation and regulations	9
Section 5(a)(1)	Significant problems, abuses, and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	None
Section 5(a)(4)	Matters referred to prosecutive authorities	7
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	12, 11,
Section 5(a)(7)	Summary of each particularly significant report	5, 3, 4,
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	11
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	12
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	None
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None

***Refers to sections in the Inspector General Act of 1978, as amended.