



Office of Inspector General
Legal Services Corporation

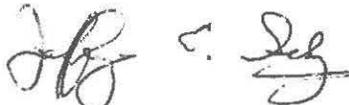
Inspector General

Jeffrey E. Schanz

3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660 (p) 202.337.6616 (f)
www.oig.lsc.gov

**FRAUD ALERT
18-0053-A-FA**

TO: Executive Directors

FROM: Jeffrey E. Schanz, Inspector General 

DATE: March 28, 2018

SUBJECT: Advisory Bulletin on Grantees' Prompt Reporting of Potential Fraud Indicators to the Office of Inspector General

On April 9, 2015, the Legal Services Corporation (LSC) Office of Inspector General (OIG) distributed [Fraud Alert 15-01, Advisory Bulletin on Grantees' Prompt Reporting of Potential Fraud Indicators to the OIG](#). Fraud Alert 15-01 described certain indicators of grant fraud the OIG had observed when investigating grant fraud schemes at LSC-funded programs. The OIG is now issuing this Fraud Alert to inform grantees of fraud indicators uncovered in more recent OIG investigations and to highlight the importance of grantee employees alerting the OIG to potential indicators of fraud, waste, and abuse of program funds.

Legal Services Corporation (LSC) Grant Terms and Conditions require a grantee to notify the LSC OIG Hotline within 2 business days of:

- discovering information indicating that you have been the victim of a loss of \$200 or more as a result of any willful misrepresentation or theft, fraud, misappropriation, embezzlement, or theft involving property, client funds, LSC funds, and/or non-LSC funds used for the provision of legal assistance;
- reporting a crime to local, state, or federal law enforcement officials;

- discovering that you have been the victim of a theft of items such as credit cards, check stock, passwords, or electronic access codes that could lead to a loss of \$200 or more; or
- that any of your key officials or employees with control over your finances are charged with fraud, misappropriation, embezzlement, theft, or any similar offense, or are suspended or disciplined by a professional licensing organization.

LSC Grant Terms and Conditions provide a broad overview of issues that should be reported to the OIG. Our recent investigative work has disclosed the following fraud indicators that have been found to be associated with larger schemes involving the theft or misuse of program funds, and which should likewise be reported to the OIG.

Questionable Purchases

- Information technology (IT) invoices or receipts that appear to be questionable or contain little detail describing the items purchased;
- Invoices/receipts for items that are submitted to accounting without describing a business purpose;
- IT-related expenses that are handled with less fiscal oversight than the normal grantee approval process for purchases and contracts for services of similar amounts;
- Failure of grantee accounting staff to review credit card or purchasing account statements on a monthly basis;
- Employees failing to submit supporting documentation for purchases;
- A trend or pattern of meals purchased with a grantee credit card that appear to be personal or for multiple staff members with no business purpose;
- Employee reimbursements for items or services purchased using an employee's personal credit card rather than the grantee credit card;
- High cost projects that receive very little, if any, fiscal oversight by grantee accounting staff; and/or
- Out of date inventory lists or inventory lists that do not include IT equipment.

Contracting

- Failure to follow grantee contracting policies;
- Failure to justify sole source contracting decisions;
- Failure to re-bid high-dollar recurring contracts every three years;
- Failure to ensure that vendors (particularly IT vendors) do not have a personal relationship or other conflict of interest involving grantee management or contracting personnel that may lead to hidden commissions or bribes paid by the vendor; and/or
- Failure to properly document and retain contract award decisions.

Mismanagement, Misconduct, or Employee Conflict

- Increased employee turnover that occurs shortly after the departure of a long-term executive director or after the hiring of a new executive director who was not previously associated with the grantee;
- Management officials who make a practice of hiring persons with whom they or another grantee employee have a family or business relationship, particularly when management has not disclosed such potential conflicts to the Board of Directors, or otherwise sought Board approval; and/or
- Attorneys who failed to disclose past state bar discipline during the hiring process.

Attorneys' Fees and Unauthorized Use of Grantee Resources

- Grantee staff attorneys who work cases that may result in a court-awarded fee, but have not remitted attorneys' fees to the grantee in a significant period of time;
- Failure of managing attorneys to identify and monitor cases that result in court-awarded attorneys' fees to ensure that the fees are remitted to the grantee before closing a case; and/or
- Employees who have used grantee e-filing accounts (case documents) or login credentials for personal use or for their private outside practice.

Diversion of Clients for Personal Gain

- Insufficient policies and oversight which result in employees using clients' personal and case information data in the grantee case management system (CMS) for improper purposes;
- CMS systems that do not incorporate an audit trail to document user activities;
- Failure to limit overrides and defaults in the CMS and ensure that overrides and defaults receive proper approval;
- Sharing of login credentials for the grantee CMS, case document e-filing accounts, and financial databases among grantee employees and/or volunteers;
- Unauthorized referrals of financially ineligible clients or non-priority cases by grantee employees to private attorneys who have a personal or business relationship with a grantee employee;
- Clients whose names are not in the CMS claiming to have been served by a grantee employee;
- Referrals of ineligible clients during the intake process to persons or entities that have not received prior approval to receive referrals, especially referrals to private attorneys; and/or

- Contract intake and/or hotline attorneys who maintain private law practices with case priorities similar to the grantee's.

Travel Fraud

- Travel reimbursement claims submitted not by employees, interns, or volunteers, but by a supervisor on their behalf;
- Travel reimbursement checks mailed/provided to a supervisor or other staff member rather than directly to the traveler;
- Mileage reimbursement claims submitted by an employee that show an inefficient use of time or seek reimbursement for travel outside of program hours; and/or
- Lack of management awareness and oversight of employee mileage reimbursement claims that show a pattern of redundancy as to destination and amount.

Time and Attendance Fraud

- Employees known to have an outside business who keep irregular working hours or are often found to be frequently absent from the office;
- Employees using their official position at the program to obtain clients for their private outside business, such as translation services, process serving, or notary services; and/or
- Supervisors known to abuse their authority, including encouraging staff to work for the supervisor's outside business during grantee business hours.

I hope you find this Fraud Alert useful. The OIG's Fraud Hotline telephone number is 800-678-8868 or 202-295-1670; our email address is hotline@oig.lsc.gov; and our fax number is 202-337-7155.

If you have any questions concerning this Fraud Alert, please contact Dan O'Rourke, Assistant Inspector General for Investigations, LSC OIG, at 202-295-1651; email dorourke@oig.lsc.gov.

For more information on other fraud topics please refer to our Investigative Results and Products webpage: <https://oig.lsc.gov/products/investigative-results-and-products>.