

LEGAL SERVICES CORPORATION

Office of Inspector General

Semiannual Report to the Congress
October 1, 2005 – March 31, 2006

www.oig.lsc.gov

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

A MESSAGE FROM THE INSPECTOR GENERAL

This Semiannual Report sets forth the significant activities and accomplishments of the Office of Inspector General (OIG) from October 1, 2005 through March 31, 2006. During this period, the OIG continued to perform its work by conducting independent and objective audits, investigations, and other reviews, and issuing fair and accurate reports on the programs and operations of the Legal Services Corporation (LSC).

This report details our efforts to oversee the system for routine monitoring of compliance with the restrictions on the use of LSC funds by grantees. It also reports our efforts to improve the effectiveness and efficiency of LSC.

In this reporting period, the OIG issued three audit reports and 14 audit service review reports. We also opened nine investigations, closed eight investigations, and made one referral for prosecution. We are completing our work on three LSC components that are involved in overseeing LSC-funded legal services programs. In addition, we adjusted our work plan to begin addressing two official inquiries that we received from Congressional committees. We also initiated strategic planning efforts which will take into account the LSC's Strategic Directions plan, recently approved by the LSC Board.

As required by the Inspector General Act, I report regularly to the LSC Board of Directors and Congress on our work. In addition, I meet on a regular basis with the LSC President. I look forward to continuing to work with Chairman Frank Strickland and the Board of Directors, and with President Helaine Barnett and her senior staff, as we continue our mutual efforts to forge effective and positive working relationships. I also would like to extend my personal welcome to Sarah M. Singleton, the Board's newest member.

In particular, I would like to thank the many Members of Congress, Congressional committees and subcommittees, and Congressional staff for their confidence in the ability of my office to provide accurate, objective, and independent information and for their support of IG independence and resources. My goal is to continue to provide the LSC Board and Congress with the information they need to ensure the success of LSC's statutory mission to provide support to programs serving persons unable to afford legal assistance.

Sincerely,

Kirt West
Inspector General
March 31, 2006

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OFFICE OF INSPECTOR GENERAL OVERVIEW

The LSC Office of Inspector General operates under the Inspector General Act of 1978, 5 U.S.C. app. 3. In 1988, Congress amended the IG Act and required LSC and about 30 other mostly smaller, federally funded entities to establish independent Offices of Inspector General.

The OIG has two principal missions: to assist management in identifying ways to promote efficiency and effectiveness in the activities and operations of LSC and its grantees; and to prevent and detect fraud and abuse. Thus, the OIG assists management in fostering, and overcoming obstacles to, good program management and in preventing future problems. It must also identify and report on current problems.

The OIG's primary tool for achieving these missions is fact-finding through financial, performance and other types of audits, evaluations and reviews, as well as investigations into allegations of wrongdoing. Its fact-finding activities enable the OIG to develop recommendations to LSC, the Congress and grantee management for actions or changes that will correct problems, better safeguard the integrity of funds, improve procedures, or otherwise increase efficiency or effectiveness.

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

In addition to the missions shared by all OIGs, Congress, starting with LSC's FY 1996 appropriation, directed that an additional tool for monitoring grantee compliance with legal requirements is to be the annual grantee audits conducted by independent public accountants under guidance developed by the OIG, thus adding participation in monitoring compliance to the role of the OIG. In addition, Congress specified the OIG's authority to conduct its own reviews of grantee compliance.

The OIG is headed by the Inspector General who reports to and is under the general supervision of the LSC Board of Directors. The IG has broad authority to manage the OIG, including setting OIG priorities and activities, and to hire OIG personnel, consultants and experts.

To ensure the objectivity of the IG, the IG Act grants the LSC IG the independence to determine what reviews are performed; to gain access to all documents needed for OIG reviews; to publish findings and recommendations based on OIG reviews; and to report OIG findings and recommendations to the LSC Board of Directors and 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. §2996-2996I, other than those transferred to the OIG under the IG Act, and those otherwise assigned by Congress, for example in the FY 1996 Appropriations Act. The IG Act further provides that the LSC Board of Directors may not prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation.

The IG must report 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 has found that there are reasonable grounds to believe that a crime has occurred. The OIG is not an "arm" of the Congress, as is the Comptroller General, but is required by law to keep the Congress informed through semiannual reports and other means. The IG also provides periodic reports to the Board and management of LSC and occasionally to the Boards of Directors and management of LSC grantees. Some of these reports will be specific (e.g., an audit of a particular grantee or an investigation of a theft), while others will be of more general interest to management.

Although the OIG is not a part of LSC management, it also is not an adversary of LSC management. To be most effective, the OIG seeks to work cooperatively with the Board and management, seeks their input prior to choosing topics for OIG review, and keeps them informed of OIG activities. Within their different statutory roles, the OIG and LSC management share a common commitment to improving the federal legal services program and increasing the availability of legal services to the poor.

AUDITS

Interim Report on Management Oversight of Grantees—Office of Compliance and Enforcement

The OIG is conducting an audit of LSC's oversight of its grant recipients. The objective of our review is to evaluate the efficiency and effectiveness of LSC's various oversight programs. Because of the number of different program offices involved in the oversight of grantees, the OIG is issuing interim reports on each program office.

During this reporting period, the OIG issued the final audit report on LSC's Office of Compliance and Enforcement (OCE) and made recommendations to improve OCE's internal operations¹. The OIG found that the effectiveness and efficiency of OCE operations needed to be improved. OCE's on-site reviews of grantee compliance largely duplicated the compliance work conducted annually by the Independent Public Accounting firms (IPAs) that are overseen by the OIG. In addition, OCE had no outcome-based measures to ensure that its oversight programs were structured effectively and efficiently.

LSC management stated that it is committed to the efficient and effective management of the Corporation, including the compliance work of OCE. Although not specifically agreeing with all recommendations, LSC management's actions taken or planned as part of its Strategic Directions 2006-2010 initiatives addressed the OIG's concerns. Therefore, the recommendations for this audit report were closed.

We deferred making recommendations to OCE on potential duplication of oversight activities until we complete our other reviews. Future reports will be issued on the Office of Program Performance (OPP) and the Office of

¹ Congress requires that all LSC grantees have audits conducted by independent public accountants under guidance developed by the OIG. Congress also gave OIG authority to conduct its own reviews of grantee compliance. Because of this responsibility, the OIG inserted the following Scope Limitation in the OCE report: "*Government Auditing Standards* require that audit work be free both in fact and appearance of any impairment to independence. If the audit work cannot be declined because of legislative requirements or other reasons, the impairment should be reported in the scope section of the audit report. The OIG has been legislatively assigned the responsibilities of providing guidance, monitoring the work, and evaluating the performance of the IPAs who annually conduct the financial, internal control, and compliance evaluations of each grantee. In addition, the legislation authorizes the OIG to conduct on-site monitoring, audits, and inspections necessary for programmatic, financial, and compliance oversight. Therefore, in accomplishing the first specific objective in this audit of evaluating whether or not OCE is performing work duplicative of the OIG's compliance oversight program, a real or perceived impairment to independence may exist and is being disclosed. However, in the opinion of the OIG, no impairment to independence exists relating to the remaining two specific objectives—OCE's measurement system and the processes and procedures used to review grantee compliance."

Information Management (OIM) as well as the oversight role of the OIG and IPAs. At the conclusion of these reviews we will issue a report that will consolidate our findings and identify overarching issues.

Compressed Work Schedule and Compensatory Time Programs

The Compressed Work Schedule (CWS) program allows LSC employees to select work schedules that provide flexibility in the number of days that employees are scheduled to work in a pay period. The Compensatory Time (CompTime) program allows certain employees to earn compensatory time if corporate business requires them to work on their regularly scheduled day off. During this period the OIG completed an audit of these two programs.

The audit found that the management of the CWS and CompTime programs was generally effective. Although policy was generally being followed, clearer guidance was needed to address instances in which individuals were routinely working on CWS days and accumulating large numbers of these days under the CompTime program. Some managers were allowing this accumulation and others were not, subjecting LSC to potential complaints of disparate treatment. In addition, allowing employees to accumulate large balances of compensatory time could also increase LSC's potential liability for unpaid vacation leave because employees may use the compensatory time in lieu of vacation leave. The OIG also found that recordkeeping controls and reconciliation procedures within the various LSC offices needed improvement.

In response to the audit findings and recommendations, LSC management took prompt action by adopting a new CWS policy. This revised policy addresses all the issues presented in the audit and closes all audit recommendations.

Fiscal Year 2005 Corporate Audit

The FY 2005 Financial Statement Audit was transmitted to the Board on March 31, 2006. The Independent Auditor's Report by M.D. Oppenheim, P.C., stated that LSC's financial statements present fairly, in all material respects, the financial position of LSC. The Independent Auditor's Report on Compliance and Internal Controls disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and also noted no matters involving the internal control over financial reporting and its operation that were considered to be material weaknesses.

The OIG reviewed the Independent Auditor's Report and related audit documentation and inquired of their representatives. Our review disclosed no instances in which the Independent Auditor's Report did not comply, in all material respects, with generally accepted government auditing standards.

Audit Service Reviews

The OIG is responsible for the oversight of the Independent Public Accounting firms (IPAs) who are selected by the grantees to perform their annual financial and compliance audits. To fulfill this oversight responsibility, the OIG conducts Audit Service Reviews (ASRs), which are reviews of the audit documentation of selected IPAs to determine whether they adequately tested the grantees' compliance with LSC regulations. During this reporting period, the OIG issued 14 ASR reports. The OIG also closed one open ASR from a previous reporting period after a review of the corrective actions the IPA was required to perform.

Audit Reports

Open at beginning of reporting period	3
Issued during Reporting Period	3
Closed during Reporting Period	4
Open at End of Reporting Period	2

Recommendations to LSC Grantees

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

Recommendations to LSC Management

Pending at beginning of reporting period	10
Issued during reporting period	15
Closed during reporting period	15
Pending at end of reporting period	10

INVESTIGATIONS

The OIG opened nine investigations during the reporting period: two theft of funds or theft of property cases; two embezzlement cases; two false claims cases; one conflict of interest case; and two misuse of funds cases. The OIG issued and served one Inspector General subpoena in conjunction with a false claims case involving falsified travel vouchers by a grantee employee. The OIG, which maintains a Hotline for receiving reports of illegal or improper activities relating to LSC programs and operations, received 39 Hotline contacts, one of which was referred to LSC management for follow-up.

During this period, the OIG also opened a loss prevention initiative to review financial vulnerability of LSC grantee operations. Based on information gained from the Hotline, the Independent Public Accountant financial reports, and other sources of referrals, the OIG planned to conduct selected field reviews to ensure that adequate safeguards and internal controls are in place to prevent criminal activities. However, due to higher priority cases, we were unable to conduct reviews and as a result of continuing budgetary constraints this project has been deferred.

In a criminal investigation referred by the OIG to local law enforcement, the subject was sentenced to 24 months probation and ordered to pay \$600 in court costs, \$60 to the crime victim fund, \$60 to State costs and \$1,000 in restitution. The subject, a building cleaning service employee, enabled another person to gain access to an LSC grantee's office to steal cash left with the grantee by one of its clients.

In an OIG investigation involving an embezzlement of LSC program grantee funds, the subject was sentenced to 60 days in jail, two years probation and ordered to pay \$11,666 in restitution.

INVESTIGATIVE CASES

Open at beginning of reporting period	8
Opened during reporting period	9
Closed during reporting period	8
Open at end of reporting period	9

PROSECUTORIAL ACTIVITIES

Referred for prosecution	1
Accepted for prosecution	1
Declined for prosecution	0
Arrests	0
Pending	0
Convictions	1

INVESTIGATIVE ACTIVITIES

Inspector General subpoenas issued	1
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STRATEGIC PLANNING

Comments on LSC's Strategic Directions 2006-2010

The OIG initiated work on LSC's "Strategic Directions 2006-2010" upon LSC's request for public comment on the draft plan. Staff reviewed the plan, had discussions with the LSC Chief Administrative Officer coordinating the plan, and provided written comments suggesting the Board consider various actions, including ensuring that its mission statement reflects its role as a source of federal funding for legal services, validating Congress' agreement with the mission statement, self-assessing the plan under OMB and GAO criteria, developing a balanced scorecard of performance measures, identifying data that should be captured to measure performance, establishing a national technology investment strategy, and establishing an annual strategic planning review cycle. We appreciated the opportunity to provide feedback and found our dealing with LSC Management to be very constructive and informative.

OIG Strategic Planning

After the Board adopted the LSC Strategic Directions in January, the OIG began work on its own 5-year Strategic Plan. The OIG is working to align its plan with LSC's new strategic plan and identify major management challenges so our work can better assist the Congress, the Board, and LSC management in achieving organizational goals. My staff has experience with increased accountability practices of the Government Performance and Results Act (GPRA); although the Act is not applicable to LSC, our planning processes will voluntarily conform to those practices. During the planning process, we will seek input from OIG stakeholders, including Congress, the Board, LSC management and others. The OIG will consult with appropriate Congressional committees as required under GPRA before issuing the Plan.

LEGAL REVIEWS

Pursuant to the IG's statutory responsibilities, the OIG reviewed and, where appropriate, commented on statutory and regulatory provisions affecting LSC and/or the OIG as well as LSC interpretive guidance and its internal policies and procedures.

OTHER REVIEWS

Administrative Investigation of LSC Grantee Compliance

We are continuing an administrative investigation into the compliance with LSC laws and regulations of a relatively large LSC grantee, initiated last reporting period. The investigation is based on a request from the Chairman of the Subcommittee on Commercial and Administrative Law of the House Judiciary Committee and from a Member of Congress in whose district the grantee provides services. The grantee recently informed the OIG that it will not provide certain requested information to the OIG. The OIG referred the denial of access to the LSC President requesting that LSC management take action to require the grantee to comply with federal law and LSC's grant assurances regarding access to records. The OIG will not be able to complete its investigation without such information.

OIG Comments to SCLAID on Revisions to Standards

The OIG sent comments to the American Bar Association's Standing Committee on Legal Aid and Indigent Defendants (SCLAID) Task Force on the Revision of the Standards for Providers of Civil Legal Services to the Poor. In addition to other criteria, LSC uses these standards to evaluate the performance of its grant recipients. We directed our comments to governance, fiscal management, confidentiality, fraud prevention, and program effectiveness. We noted that provider governing bodies should be aware that there is publicly-available guidance to help governing bodies better understand their responsibilities, including compliance with the Sarbanes-Oxley Act. We pointed out that fraud against organizations, including by insiders, is unfortunately a real concern, and small, not-for-profit organizations suffer disproportionately large losses as a result of fraud. The OIG made several suggestions about how to help ensure financial integrity.

Regarding systemic advocacy, we suggested that providers be advised to determine whether systemic advocacy is authorized before making a determination of whether it would then be appropriate. Similarly, regarding legislative advocacy and administrative rule-making, we suggested that the Standards be revised to remind providers they must always be mindful of funding source and other restrictions, regardless of the Standards. We also made suggestions on protecting client confidences without interfering with legitimate access.

In addition, based on our experience we pointed out that providers of legal services to the poor will sometimes be asked to provide legal services by unscrupulous persons who know they are not entitled to free or reduced-cost representation. We suggested encouraging providers to be aware of potential fraudulent practices and to report attempts to falsify applications to the appropriate entities, including the funding source. Finally, in addition to promoting the use of quality measures, we suggested also promoting the use of quantitative measures.

AUDIT REPORTS ISSUED
for the Period Ending March 31, 2006

<u>Title</u>	<u>Date Issued</u>
1. Audit of LSC's Compressed Work Schedule and Compensatory Time Programs	November 20, 2005
2. FY 2005 LSC Corporate Audit (Conducted by an independent public accounting firm)	March 31, 2006
3. Interim Report on Management Oversight of Grantees – Office of Compliance and Enforcement	March 31, 2006

AUDIT SERVICE REVIEWS ISSUED
for the Period Ending March 31, 2006

Recipient	IPA	<u>Date Issued</u>
1 LAS of Orange County	Conrad & Associates	11/16/05
2 Potomac LAS	Barcalow & Hart, PLLC	12/14/05
3 Southwestern PA LAS	McKonley & Asbury	11/14/05
4 Community LS	DeVries CPAs of Arizona	11/02/05
5 LS of Northern CA	Essary Dal Porto & Lowe	11/21/05
6 DNA Peoples LS	Gary E. Hellmer, CPA	10/28/05
7 Central CA LS	Moore Grider & Co.	10/03/05
8 LS of Hudson Valley	Victor J. Cannistra, CPA	12/07/05
9 Community LAS	Plante & Moran PLLC	12/12/06
10 LAS of Columbus	GBQ Partners	10/14/05
11 Blue Ridge LS	Barcalow & Hart, PLLC	12/14/05
12 Community Law Office	Jose L. Cardona & Co.	12/14/05
13 Memphis Area Legal Services	Craine, Thompson & Jones	12/14/05
14 Nevada Legal Services	Piercy Bowler Taylor & Kern	10/28/05

TABLE I
Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 2006

	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
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
E. 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, 2006**

	NUMBER OF REPORTS	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period.	2	\$5,640,400
B. Reports issued during the reporting period	0	0
Subtotals (A + B)	2	\$5,640,400
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	2*	\$5,640,400

* Note: Audit reports of (1) LSC's \$2 Million Landlord Contribution and (2) LSC's Office Space Needs

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	10
Section 5(a)(1)	Significant problems, abuses, and deficiencies	10
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	10
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	None
Section 5(a)(7)	Summary of each particularly significant report	None
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	14
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	15
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	15
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.

INSPECTOR GENERAL HOTLINE

To report suspected fraud, waste or abuse:

Call: 1 800 678 8868 or
1 202 295 1670

Or write: PO Box 3699
Washington DC 20027

You can request that your identity be protected.

LSC employees are protected from reprisals by the Corporation.