

Legal Services Corporation
Office of
Inspector General

Semiannual Report to the Congress
October 1, 2004 - March 31, 2005

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

A MESSAGE FROM THE INSPECTOR GENERAL

This past six months, my first full reporting period, has been an inspiring time for me as I learn more about Legal Services Corporation (LSC) programs and operations and meet so many dedicated and caring LSC employees and stakeholders. It also has been a time for LSC employees and stakeholders to become more familiar with the statutorily-mandated roles and responsibilities of the Office of Inspector General (OIG). Since becoming Inspector General seven months ago, it was my impression that the OIG could be more independent-minded to ensure that taxpayer dollars deliver maximum results. We have begun taking steps in that direction.

In addition to carrying out our responsibility to oversee compliance with restrictions placed on grantees to refrain from certain activities, we began reviewing the internal operations of LSC as authorized by the Inspector General Act. While we are expanding our reviews to include internal LSC operations, we have continued our prior work regarding grantee operations. Our investigative activity has increased markedly with the hiring of an investigator, and our legal staff continues to provide comments on significant LSC regulatory and policy initiatives. The OIG is also making progress by defining and setting new directions and allocating OIG resources to high-risk areas and by starting to identify major management challenges facing LSC.

Within the OIG we are improving ourselves and our work environment. Staff has been trained in writing and editing and in developing a high-performing organization. The OIG is committed to delivering high-quality professional audit and investigative services to help management improve LSC programs and operations. To that end, we will provide timely, accurate and fact-based audits, inspections, evaluations, and investigations to help LSC carry out its mission.

Concerns have been voiced that any negative findings reported in the OIG's review of LSC internal operations could undermine the overall program. In my view, while such reactions are initially understandable, transparency in LSC operations will help secure its future. Congressional support of LSC may depend on management's willingness to acknowledge errors and opportunities for improvement identified in OIG reviews, to take prompt corrective action, and to strive for continuous improvement, which the OIG will validate. I am confident that if LSC responds to OIG recommendations to improve programs and operations, our stakeholders will have the trust and confidence they need to continue their support of LSC.

October 1, 2004 - March 31, 2005

To keep our stakeholders informed, twice a year as required by law, the OIG submits this report to the Board of Directors, the agency head of LSC, for transmittal to the Senate and House of Representatives. In addition, throughout the year we keep the Board of Directors and Congress fully and currently informed by meeting with them regularly and responding to their inquiries. In my statutory role as an independent Inspector General, it is my job to ensure that the Board of Directors and Congress have accurate, complete, and timely information that fairly and objectively describes the condition of LSC programs and operations.

This Semiannual Report sets forth the significant activities and accomplishments of this office from October 1, 2004 through March 31, 2005. It details our efforts to ensure compliance with the restrictions on the use of LSC funds by grantees. It also looks at our efforts to improve the effectiveness and efficiency of LSC. In this reporting period, the OIG issued 22 audit reports and several other products. We also opened seven investigations and closed one with a referral for prosecution.

I am very appreciative of the support I have received from LSC during my first seven months as Inspector General. In addition, I would like to thank the Board of Directors and Congress for their encouragement and interest in having an independent and effective OIG. I am confident that by working together we can ensure that LSC continues to be in the vanguard of providing legal services to the poor.

Sincerely,

Kirt West
March 31, 2005

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OFFICE OF INSPECTOR GENERAL

OVERVIEW

The LSC Office of Inspector General (OIG) operates under the Inspector General Act of 1978. In 1988, Congress amended the IG Act and required LSC and about 30 other, mostly smaller, federally funded entities to establish independent Inspector General offices.

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: a) overcoming obstacles to good program management; b) preventing future problems; and c) identifying and reporting 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 and grantee management for actions or changes that will correct problems, better safeguard the integrity of funds, and 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, beginning with LSC's FY 1996 appropriation, Congress directed that the primary tool for monitoring grantee compliance with legal requirements would be the annual grantee audits. These audits are 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 (IG) 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 hiring OIG personnel, consultants and experts.

To ensure OIG objectivity, the IG Act grants LSC's IG the independence to determine what reviews are performed, gain access to all documents needed for OIG reviews, publish findings and recommendations based on OIG reviews, and report OIG findings and recommendations to the LSC Board and Congress. The IG Act also prohibits LSC from assigning to its IG any of LSC's own "program operating responsibilities." This means the OIG does not perform functions assigned to LSC by the Legal Services

Corporation Act, other than those transferred to the OIG under the IG Act, and those specifically assigned by Congress, for example as in the FY 1996 appropriations act.

The IG must report serious problems to the LSC Board and report to appropriate law enforcement authorities, when through audit, investigation or other activity, the IG finds there are reasonable grounds to believe 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 LSC 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 effective, the OIG works cooperatively with the IG, 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 management of LSC share a common commitment to improving the Federal legal services program and increasing the availability of legal services to the poor.

IDENTIFYING LSC MAJOR MANAGEMENT CHALLENGES

One of our goals for the upcoming reporting period will be to work with LSC management to identify major challenges and obstacles faced by LSC. Over the years, OIGs have reported these issues to their agency heads and Congress to alert them to the challenges facing their agencies.

Since 1999, the IG community has compiled the individual agency results to provide the Congress and others responsible for overseeing government activities with a list of government-wide matters that warrant high-level attention and review. In the most recent annual report to the President of the United States, the challenges identified by the IG community included:

- Information Technology Management and Security
- Financial Management and CFO Statements
- Performance Management and Accountability
- Human Capital
- Procurement and Grant Management
- Homeland Security
- Service to the Public

Not surprisingly, the top management challenges identified by OIGs over the past several years closely correlate with the reform initiatives that were targeted in the President's Management Agenda when it was released in the summer of 2001. These five government-wide reform initiatives include: human capital management,

competitive sourcing, financial management improvement, expanded electronic government, and budget and performance integration as well as the added emphasis on homeland security activities.

Because of the emphasis placed on accountability and results by the Administration and Congress, the OIG will begin efforts to identify LSC's major challenges and obstacles.

OIG STAFFING NEEDS

Prior to the appointment of a new Inspector General on September 1, 2004, there was an acting IG for nearly four years working under two different Boards of Directors. An internal assessment of work performed during those years, as well as discussions with Congressional staff, indicated that the OIG could have been doing more to fulfill its mission. A review of existing mandatory and discretionary work and the development of a work plan to address high-risk areas led to the conclusion that the OIG can not adequately perform its mission with current staffing levels.

In order to carry out its mission, the OIG has filled several vacancies by arranging for the reimbursable detail of a senior audit executive from another OIG to be the acting Assistant Inspector General for Audit, hired a veteran OIG investigator and filled the new position of Special Counsel during the reporting period. The addition of seasoned OIG senior executives will result in higher productivity and improved quality in a short period of time.

Additionally, the OIG submitted a budget to Congress of \$3,400,000 for FY 2006, an increase of \$827,000 over the OIG FY 2005 appropriation. Although mindful of the considerable restraints on the Federal budget, the OIG believes this increase is necessary to perform its core mission as defined by the Inspector General Act, as well as the important additional compliance duties assigned by Congress.

OIG 2005 ANNUAL WORK PLAN

The OIG presented its 2005 Annual Work Plan to the Board of Directors this past February. In developing the plan, the OIG consulted with and sought input from the LSC Board, Congress, and others. In assessing risks, which helps determine work priorities, the OIG looked at legal requirements, LSC resources, grantee compliance, Board and Congressional interest, potential for fraud, waste, or abuse, public interest, cost savings, time sensitivity, and impact on economy and efficiency. The OIG also considered budget limitations, available resources, costs, and the length of the project.

The OIG identified the following planned work for 2005:

- Comparison of 1996 restrictions with current LSC practices
- Structure of LSC
 - Oversight functions
 - Technology needs
 - Resource management
- Compliance work mandated by Congress
 - Review of independent public accountant (IPA) reports
 - Oversight of IPAs
- Program integrity work as needed
- Investigations
- Reviews of LSC regulations and policies
- Audit peer review
- Oversight of LSC financial statement
- Reviews of LSC internal operations

AUDITS

AUDIT SERVICE REVIEWS (ASRS)

The OIG is responsible for the oversight of the Independent Public Accountants (IPAs) who are selected by the grantees to perform annual audits. The OIG relies on the work of the IPAs who are required by Congress to provide assurance that the grantees comply with LSC regulations. To fulfill this responsibility, the OIG conducts ASRs which are reviews of the audit documentation of selected IPAs to determine whether they adequately tested grantee compliance with 14 specific LSC regulations.

During this period the OIG issued 18 ASR reports. Of these 18 reports, nine of the reviews showed deficiencies in testing and/or documentation. The OIG required the IPAs for these nine audits to perform corrective action. During this period, the OIG reviewed and accepted the corrective action taken for seven of the nine audits. The IPAs for the remaining two open ASRs will perform the required corrective action in the near future.

CORPORATE AUDIT

The IPA under contract with the OIG has issued the draft report for the FY 2004 financial statement audit of LSC. The final audit report is pending the receipt of the Management Representation Letter from LSC management. The FY 2004 corporate audit will be transmitted to the LSC Board early in the next reporting period.

BOARD MEMBER TRAVEL

The OIG has instituted a new program to conduct an annual audit of LSC Board member travel to determine whether travel expenses were properly supported and in compliance with LSC travel policies and procedures. The audit revealed that FY 2004 travel expenses claimed by LSC Board members were properly supported and generally complied with LSC travel policies and procedures. The OIG made two recommendations to address minor issues and LSC implemented the recommendations.

TECHNOLOGY INITIATIVE GRANT

The OIG conducted an audit of a technology initiative grant. The purpose of the grant was to develop a wide area network to allow grantee personnel to share and access data throughout each office in the program area. The OIG concluded that the grantee incurred costs in accordance with criteria in the grant, met the significant deliverables in the grant, but did not fully comply with grant requirements to measure the impact of the grant. Because the grantee submitted an alternative

report to satisfy LSC requirements, we did not make recommendations to the grantee. A broader review of the technology initiative grant program will be the subject of an OIG audit later this year.

PRIVATE ATTORNEY INVOLVEMENT (PAI)

During this reporting period, the OIG issued final reports of PAI audits for two grantees. These audits assessed grantee compliance with LSC Regulation Part 1614, which requires grantees to spend an amount equal to at least 12.5 percent of their basic field grants to involve private attorneys in providing legal services to LSC-eligible clients. The OIG identified several issues including improving grantee follow-up with private attorneys on the status of PAI cases, improving the accuracy of statistical data reported, and ensuring that supporting documentation is complete. The OIG provided a letter to LSC management consolidating observations on the PAI program obtained through these audits.

PROGRAM INTEGRITY

In the previous reporting period, the OIG closed the audit of California Rural Legal Assistance (CRLA) after determining that the CRLA corrective action plan submitted after issuance of the audit addressed many of our recommendations. Some issues that surfaced during the audit follow-up process were actually disagreements or concerns that the OIG had with LSC management's interpretation of the restrictions. The OIG referred the issues that arose in the CRLA audit, most of which relate to program integrity, to LSC management. The OIG also suggested that LSC provide clarification on the application of the regulations to give grantees the clear guidance they need. LSC management's consideration of additional guidance is on hold because of ongoing litigation.

REVISED AUDIT GUIDANCE ISSUED

On December 15, 2004, the OIG notified all LSC grantees that effective January 1, 2005 it was making a change to its guidance to the independent public accountants (IPAs) who, as required by Congress, audit the grantees' financial statements as well as the grantees' compliance with laws and regulations. In the past the OIG issued "suggested" guidance to the IPAs as to certain audit testing. The guidance now contains "required" minimums.

PEER REVIEW

In accordance with the requirement that each OIG undergo a peer review of the audit function every three years, the OIG conducted a peer review of another OIG and issued the draft report. The final review report will be issued in early April. The LSC OIG will be undergoing a peer review during the next reporting period.

AUDIT REPORTS

Open at beginning of reporting period	1
Issued during reporting period	22
Closed during reporting period	21
Open at end of reporting period	2

RECOMMENDATIONS TO LSC GRANTEES

Pending at beginning of reporting period	5
Reported during reporting period	3
Closed during reporting period	8
Pending at end of reporting period	0

RECOMMENDATIONS TO LSC MANAGEMENT

Pending at beginning of reporting period	0
Reported during reporting period	2
Closed during reporting period	2
Pending at end of reporting period	0

INVESTIGATIONS

The OIG opened seven investigations during the reporting period. Three cases involve allegations of embezzlement; three cases involve allegations of improper purchasing practices; and one case is an administrative investigation.

During this reporting period, the OIG assisted an executive director of an LSC grantee in addressing an embezzlement of a small amount. Another embezzlement case was referred and accepted for prosecution by a local District Attorney's Office. The remaining investigations are in progress.

During this reporting period, the Inspector General issued two subpoenas in connection with the investigations.

The OIG maintains a Hotline for the reporting of illegal or improper activities by LSC grantees or corporate staff. To heighten the awareness of fraud, waste, abuse and mismanagement, the OIG issued a new Hotline poster to all corporate employees during this reporting period. (Note: A copy of the new poster is on the back cover of this report.) The OIG plans to issue a new Hotline poster to the grantees during the next reporting period.

During the reporting period, the OIG received nine Hotline contacts. Of these nine contacts: one required follow-up, four were referred to LSC for follow-up, and four required no action.

INVESTIGATIVE CASES

Open at the beginning of period	0
Open during the period	7
Closed during period	1
Open at the end of period	6
Recommendations for Corrective Action	0

PROSECUTORIAL ACTIVITIES

Referred this period	1
Accepted for prosecution this period	1
Declined prior and this period	0
Pending	0
Convictions	0

INVESTIGATIVE ACTIVITIES

Inspector General Subpoenas Issued	2
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LEGAL REVIEWS

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

REGULATION: 45 CFR PART 1611, FINANCIAL ELIGIBILITY

The OIG provided written comment to the Operations and Regulations Committee of the LSC Board considering revisions to LSC's regulation governing financial eligibility, 45 CFR Part 1611. This comment was intended to assist the LSC Board's consideration of the regulation and was specifically aimed at ensuring that the regulation implements the intent of Congress, provides clear guidance, and facilitates compliance by LSC grantees as well as LSC's oversight of grantee compliance.

Group Representation:

The OIG commented that the regulation should provide eligibility criteria sufficient to ensure that groups qualify for LSC-funded legal assistance, and should require grantees to retain adequate documentation of group eligibility. The regulatory language under consideration sets as the standard for group financial eligibility the requirement that the group "provide[] information showing that it lacks, and has no practical means of obtaining funds to retain private counsel," and requires merely that grantees collect information that "reasonably demonstrates" that the group meets this criteria. The LSC Act, however, requires that eligibility be predicated on more than the general inability to afford an attorney. Thus, in the OIG's view, LSC must provide eligibility standards and guidelines for group representation more specific than a general inability to afford counsel. In addition, the OIG expressed concern that the lack of specific criteria in combination with the undefined notion of reasonableness with regard to required documentation of eligibility did not provide guidance to grantees sufficient to ensure that only financially eligible groups would be represented.

The OIG expressed concern with the expansion of group representation to permit not only the representation of groups primarily composed of eligible clients, but the representation of groups that have as a principal activity the delivery of services to those who would be financially eligible for LSC-funded services. The OIG found this problematic because in its view, neither the LSC Act itself nor its legislative history endorses the premise that LSC may permit representation of groups that are not composed of eligible clients.

INTERNAL POLICIES

During this period, LSC issued a revised Administrative Manual, providing internal policies and procedures for procurement of goods and services, business travel, petty cash, etc. The OIG provided extensive review and comment on the revised Manual prior to its issuance. Also during the period, the OIG commented on LSC's draft policy governing usage of LSC electronic mail, internet, telephone and electronic equipment. In connection with this, the OIG recommended that LSC include a banner on all LSC computer equipment notifying users that there is no expectation of privacy when using an LSC computer.

BUILDING A HIGH PERFORMANCE ORGANIZATION

As part of the OIG's effort to develop a strategic vision and implement performance measures, OIG staff attended a three-day session February 28-March 2 on Building High Performance Organizations presented by a trainer who has done similar work for the Office of Personnel Management's Federal Executive Institute. The trainer has also worked extensively with the inspector general community and has unique expertise and knowledge based on extensive professional management training work with inspectors general and their senior staff. The training session was a first step on the road to improving OIG performance. We have instituted bi-weekly meetings of the entire OIG staff to implement the steps required to become a high performance organization.

MAPPING PROJECT

As reported in previous semiannual reports, the OIG has been evaluating the potential of mapping to support the effective delivery of legal services. In February, the OIG presented preliminary conclusions to the Provision for the Delivery of Legal Services Committee of the LSC Board. The OIG is in the concluding phase of its evaluation and will issue a summary report and transfer all project assets to LSC management as soon as possible. The OIG will recommend that LSC management increase the availability of mapping to its grantees and further develop legal services mapping for its own uses.

SHARPENING OUR WRITING SKILLS

Recognizing the challenges of audit and investigative report writing, OIG staff recently attended a two-day business writing course. The OIG engaged the services of a contractor with extensive experience teaching auditors, investigators, and other OIG staff to improve their writing skills. The purpose of the training was to enhance the quality and timeliness of OIG reports by learning ways to more effectively and efficiently organize and convey information to all OIG stakeholders.

TABLE I
Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 2005

	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
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, 2005

	NUMBER OF 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	10
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	9
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	5
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	13
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	14
Section (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 (a)(11)	Significant revised management decisions	None
Section (a)(12)	Significant management decisions with which the Inspector General disagrees	None

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

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HOTLINE PUZZLE

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										A		
				¹ F						S		
				R						T		
⁴ M	I	S	M	A	N	³ A	G	E	M	E	N	T
				U		B						
				D		U						
						S						
⁵ H	O	T	L	I	N	E						

DOWN

1. Deception to secure unlawful gain
2. Expend carelessly
3. To use improperly

ACROSS

4. To manage badly
5. WHO SHOULD YOU CALL?

Fraud, waste, abuse and mismanagement are just words until you pick up the telephone and call the **HOTLINE**. Help us insure that funds for legal services are available to those that need it most. By finding the answers to your puzzle, we can improve the efficiency and effectiveness of our programs and eliminate fraud, waste and abuse. Call or write today. Remember, LSC policy (Section 2, Appendix E of LSC Personnel Manual) protects employees from reprisal for making a complaint or disclosing information to the Inspector General.

Kirt West
Inspector General
Legal Services Corporation

OIG HOTLINE
P.O. Box 3699
Washington, D.C. 20027
(800) 678-8868 or (202) 295-1670