

**Legal Services Corporation
Office of
Inspector General**

Semiannual Report to the Congress
April 1, 2005 – September 30, 2005

www.oig.lsc.gov

TO THE BOARD OF DIRECTORS
OF THE LEGAL SERVICES CORPORATION (LSC)
AND
THE UNITED STATES CONGRESS
A MESSAGE FROM THE INSPECTOR GENERAL

This is my third report since becoming Inspector General. I am pleased with the support the Office of Inspector General (OIG) has received from Congress and others in our effort to be independent-minded and to ensure that taxpayer dollars deliver maximum results. I am confident that as LSC responds to OIG recommendations to improve programs and operations, its stakeholders will have the trust and confidence they need to continue their support.

During this period LSC's congressional oversight subcommittee held a hearing regarding the OIG's report on the Financial Implications of the Lease at 3333 K Street. In that report, the OIG concluded LSC was leasing headquarters office space at unfavorable rates from its landlord, an organization established by LSC officials. Because of the difficulties arising out of the OIG's lease review, the Board of Directors subsequently was asked by LSC's oversight committees in the House of Representatives to work on improving relations between the Board and the OIG. Since then, the Board has stated it would address congressional concerns regarding the lease and its relations with the OIG. By April 2006, when the next semiannual report is published, I hope to report that progress continues to be made on both of these issues.

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 Congress and the Board of Directors fully and currently informed by meeting with them 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 April 1, 2005 through September 30, 2005. It 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 four audit reports. We also opened 10 new investigations and closed eight investigations with one referral for prosecution.

I will continue to keep the Board of Directors and Congress fully and currently informed. I appreciate the support and interest expressed by Representatives Frank Wolf and Chris Cannon as well as members of their staffs. I also would

like to thank Chairman Frank Strickland and the Board of Directors for its expressed willingness to improve working relations with the OIG, and President Helaine Barnett and her senior staff for continuing to work cooperatively to address mutual concerns. In particular, I would like to acknowledge Karen Sarjeant, Vice President for Programs and Compliance, and Charles Jeffress, Chief Administrative Officer, who joined LSC during this reporting period and who have helped the OIG work with LSC management to improve its programs and operations. Finally, I would like to welcome two new members to the Board of Directors—Mr. Thomas Fuentes and Ms. Bernice Phillips. I am committed to working cooperatively and building an effective relationship with the Board, Congress, LSC management and other LSC stakeholders.

Sincerely,

Kirt West
Inspector General
September 30, 2005

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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; and it must 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 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, Congress, starting with LSC's FY96 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. §2996-2996l, 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 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 effective, the OIG works 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 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 MAJOR MANAGEMENT CHALLENGES

In our last report, we identified that one of our goals for the upcoming reporting period would be to work with LSC management to identify major challenges and obstacles faced by LSC. We explained that over the years, most OIGs have reported these issues to their agency heads and Congress to alert them to the challenges facing their agencies. Even though the law does not specifically apply to LSC it is a good business practice for the OIG to inform the Board of major management challenges.

Since our last report, LSC management is in the process of developing its draft Strategic Directions 2006-2010 document. Considering this fact and the impact LSC strategic planning will have on the identification of major management challenges by the OIG, we are delaying identifying challenges until the Strategic Directions document is finalized.

STRATEGIC PLANNING AND RISK ASSESSMENT

The OIG is also conducting its own strategic planning process to expand the OIG planning horizon from 2006 through 2010 and incorporate the Government Performance and Results Act, the President's Management Agenda and High Performing Organization principles. As part of that effort, we held a meeting of all OIG staff to conduct a risk assessment.

The assessment attempted to capture all significant risks to LSC and grantee programs and activities that expose assets to fraud, waste, abuse and mismanagement including the potential that operations might not be performed as economically, efficiently or effectively as possible. We identified risks that are still valid from prior OIG assessments, as well as new risks, including human capital, financial management, and several other areas.

The OIG expects to align our plan with LSC's new strategic plan so our work will assist the Board, Congress and LSC management in achieving organizational goals.

AUDITS

LANDLORD BUILD OUT ALLOWANCE FOR LSC HEADQUARTERS SPACE

As a result of the OIG's review of LSC's lease at 3333 K Street, the OIG conducted a limited scope review of the accounting of the up to \$2 million landlord tenant improvement allowance LSC was supposed to receive pursuant to its lease with the Friends of Legal Services Corporation.

The OIG was unable to determine how much of the up to \$2 million of build out funds had been used by LSC because LSC did not have adequate accounting records and documentation for its leasehold improvement expenses. The OIG was able to determine that LSC may have paid approximately \$200,000 for items that should have been paid for with the leasehold improvement funds. Also, records indicated that almost \$400,000 charged by the landlord to LSC's allowance of up to \$2 million may not have been LSC leasehold improvements.

The OIG recommended that LSC obtain from the landlord a full and detailed accounting of all costs associated with the leasehold improvements, conduct a detailed analysis of the accounting, and recoup from the landlord any payments made by LSC that should have been paid using the leasehold improvement allowance. At the end of the reporting period, LSC outlined the actions taken to close out OIG recommendations, and the OIG will evaluate the proposed actions to determine if they are sufficient to close out the recommendations.

LSC'S HEADQUARTERS OFFICE SPACE NEEDS

The OIG found that because a space needs assessment was not performed before entering into a 10-year lease, LSC did not know how much space was needed to accomplish its mission. Therefore, LSC may be renting significantly more space than is needed. Using the General Services Administration (GSA) guidelines for a typical government organization, LSC may be overpaying for its space needs by as much as \$7 million over LSC's 10-year lease. However, until a space study has been completed to determine actual space needs, the actual amount of overpayment, if any, can not be determined.

Our report recommended that LSC management commission a space needs study to be conducted in a manner similar to that contained in the GSA guidelines. Should the space needs study indicate that LSC has excess space, LSC should sublease the space in a manner that reduces LSC's overall rent costs. Although LSC management disagreed with our analysis, they generally agreed to implement the recommendations. During the course of our audit, LSC took a positive step by subleasing 2,139 square feet of space on the first floor. The OIG will continue to track these significant recommendations until resolved.

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, which among other things report whether the grantees comply with LSC regulations. To fulfill this oversight responsibility, the OIG conducts ASRs which are reviews of the audit documentation of selected IPAs to determine whether they adequately tested the grantee's compliance with LSC regulations.

The OIG is currently conducting a series of 14 ASRs in 2005 using OIG staff instead of contractors. Our work to date has indicated that many more ASRs need to be performed on an annual basis by the OIG in order to ensure that IPA work is meeting Congressional requirements and serving LSC and grantee needs. In addition to ensuring that the compliance work of the grantees' IPAs is complete and meets standards, we are assessing the entire review process and the Compliance Supplement guidance provided by the OIG for use by the IPAs. Based on this assessment, we will make necessary changes to the overall program in order to provide greater assurance of grantee compliance. Field work for 10 of the 14 reviews was completed during this reporting period. The remaining four visits are scheduled for early next quarter. Reports on the results of the 14 ASRs and modifications to the Compliance Supplement will be issued next period.

FY 2004 LSC CORPORATE AUDIT

The OIG transmitted the FY 2004 Financial Statement Audit Report to the LSC Board of Directors. The audit was conducted by an independent certified public accounting firm and was performed in accordance with generally accepted auditing standards, as well as the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.

The Independent Auditor's Report stated that LSC's financial statements present fairly, in all material respects, the financial position of LSC as of September 30, 2004 and September 30, 2003 and the results of its operations and changes in its fund balance for the years then ended, were in conformity with generally accepted accounting principles. The Independent Auditor's Report on Compliance and Internal Control disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. This Report 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.

LSC OIG PEER REVIEW OF EEOC OIG

In accordance with the same standards and guidelines mentioned above, the LSC OIG conducted a peer review of the Equal Employment Opportunity Commission's OIG. LSC OIG auditors reviewed a sample of EEOC OIG reports, issued a draft report for comment by EEOC OIG management, and issued a final peer review report during this reporting period.

Audit Reports

Open at beginning of reporting period	2
Issued during reporting period	4
Closed during reporting period	3
Open at end of reporting period	3

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

OTHER REVIEWS

FINANCIAL IMPLICATIONS OF LSC'S HEADQUARTERS LEASE

After hearing concerns from Congress and OIG staff as well as members of LSC management, the OIG conducted a review of the financial implications of the 3333 K Street lease for LSC headquarters that was entered into in 2002 for a 10-year period beginning in June 2003. Two independent appraisals assessed the lease as well as information on other costs related to the lease at, and the move to 3333 K Street from LSC's previous location. The purpose of the report was to provide information to assist the LSC Board in determining any future actions regarding LSC's headquarters lease.

Based on the two appraisals, the OIG calculated LSC will overpay between \$1.23 million and \$1.89 million in rent over a 10-year period as a result of paying above market rent. Based on information provided by the appraisers, the OIG also calculated that LSC could have saved at least \$680,000 over this 10-year period by remaining in its existing space. Also, LSC would not have incurred \$440,000 in costs associated with the move. In addition, the OIG calculated that LSC may be due a rent credit because it was charged for 45,000 square feet when it only occupied 42,852 square feet from June 2003 until late 2004. The LSC Board by unanimous vote has twice disagreed with OIG's report on the lease.

SAFETY AND SECURITY REVIEW

The OIG is currently working on a Safety and Security Review of LSC headquarters. As part of this review, three safety concerns were identified and forwarded to LSC management for corrective action. Two of the three concerns were corrected by the landlord at LSC's request. The third issue is pending corrective action.

AMTRAK PEER REVIEW OF LSC OIG

Amtrak's OIG conducted a peer review of the OIG. Amtrak OIG conducted the review in accordance with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). The peer review tested compliance with the OIG's system of quality control and included a review of OIG audits.

In the Amtrak OIG's opinion, the system of quality control in effect for the period covered, October 1, 2003, through September 30, 2004, was designed in accordance with the quality standards established by the PCIE and was being complied with for that year and provided the OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. Based on the peer review, the Amtrak OIG issued the OIG an unqualified opinion on our system of audit quality control.

INVESTIGATIONS

The OIG opened ten investigations during the reporting period. There are six cases that involve theft of funds or property; three embezzlement cases; and one investigative project to review grantee financial risk.

During this period, the OIG 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 will conduct a limited field review to ensure adequate safeguards and internal controls are in place to prevent criminal activities.

There were six cases that pertain to theft of funds or property from LSC grantee locations. The OIG opened and closed five of these investigations. One investigation is pending criminal prosecution. On this case it was determined that a building cleaning service employee provided access to the perpetrator who stole cash left by a client for deposit in the client trust funds. The perpetrator was arrested by local authorities and is awaiting trial.

During this reporting period, on a previously reported embezzlement investigation, two local jurisdiction search warrants and a warrant for the subject's arrest were issued. The subject fled to another state where an arrest was made pursuant to the warrant. The subject is now awaiting trial.

Operationally, OIG investigations issued and served four Inspector General (IG) subpoenas in conjunction with an embezzlement investigation.

During this period, the OIG hired a new investigator. To better acclimate the new investigator into the Inspector General environment, the investigator attended two training courses at the Inspector General's Academy

The OIG maintains a Hotline for reporting illegal or improper activities by LSC grantees or corporate staff. For this reporting period, the OIG received 14 Hotline contacts. Six were referred to LSC for follow-up. The OIG Hotline also received two calls from victims of Hurricane Katrina, which affected phone service and closed local LSC-funded legal aid offices. Shortly after Katrina struck, OIG investigators, who monitor the Hotline, were able to provide the callers with information directing them to available legal services.

FRAUD ALERT DISTRIBUTED TO GRANTEEES

During this reporting period the Inspector General issued a fraud alert to all grantee Executive Directors on measures to detect and prevent losses from internal thefts. The guidance, which included concrete steps, was issued after receiving feedback from LSC grantees and with the realization that the median

loss due to fraud for not-for-profit organizations is as great as for public companies, and that consequently small, not-for-profit organizations like LSC grantees risk suffering disproportionately large losses if fraud goes undetected. We have received positive responses on the guidance and will continue aggressively investigating allegations of fraud as well as the effective expenditure of LSC funds.

Investigative Cases

Open at beginning of reporting period	6
Opened during reporting period	10
Closed during reporting period	8
Open at end of reporting period	8

Prosecutorial Activities

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

Investigative Activities

Inspector General subpoenas issued	4
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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 and/or the OIG as well as LSC interpretive guidance and its internal policies and procedures.

REGULATION: 45 CFR PART 1611, FINANCIAL ELIGIBILITY

In our last report, the OIG reported on its written comments to proposed revisions to LSC's regulation governing financial eligibility, 45 CFR Part 1611. During the current period, on April 1, 2005, the Operations and Regulations Committee held a meeting at which it considered the financial eligibility regulation. The OIG provided oral comments to the Committee, which while not agreeing with all of the OIG's comments, addressed some of them by changes to the regulatory text and/or the supplemental guidance that accompanied publication of the regulation.

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 at the April meeting set 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 then required 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 Operations and Regulations Committee considered these concerns and directed that language be added to the regulation to require that grantees review information concerning a group's income and assets when making an eligibility determination. The Committee found that membership groups, that is groups composed primarily of individuals qualified for LSC funded assistance, could present a difficult situation because for such groups eligibility is predicated not on the group's income and assets but that of the individual members. The Committee decided not to require a comprehensive eligibility determination of

each individual group member, finding this prohibitively burdensome, but ultimately approved language predicating eligibility on consideration of financial or other socioeconomic characteristics of group members or those served by the group.

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 endorse the premise that LSC may permit representation of groups that are not composed of eligible clients. The Committee disagreed, but decided to include language in the supplemental guidance to accompany the regulation intended to make clear that it is not LSC's intent in expanding group representation to permit grantees to circumvent the LSC restrictions, including the restriction on participation in class action cases.

The Committee directed staff to publish the proposed regulation for comment and after considering public comment, recommended the Board's adoption of the regulation. The Board adopted the Committee's recommendation and the revised regulation became final on September 7, 2005.

ELIGIBILITY OF TRAFFICKING VICTIMS UNDER THE TRAFFICKING VICTIMS PROTECTION ACT (TVPA)

The OIG provided written comment to LSC management regarding LSC's draft program letter regarding the eligibility of trafficking victims under the Trafficking Victims Protection Act (TVPA). The program letter authorizes LSC grantees to provide assistance to persons who have not yet received certification under the TVPA. Under the program letter, grantees may provide assistance with achieving certification and may provide the full range of legal services to persons who have not yet received certification, even though certification is a prerequisite to receiving benefits such as LSC-funded legal services. As such, in the OIG's view, the program letter allows representation of ineligible aliens in violation of section 504(a)(11) of LSC's 1996 Appropriations Act. We so advised LSC management and additionally advised LSC management to consider seeking specific congressional authorization, especially in light of the pending reauthorization of the TVPA.

REVISIONS TO ABA STANDARDS FOR PROVIDERS OF CIVIL LEGAL ASSISTANCE TO THE POOR

The American Bar Association (ABA) has established standards that are intended to provide guidance to organizations that provide legal assistance to the poor by addressing issues that arise in the context of the competing demands for high quality legal work, efficiently produced within available resources. The OIG

is particularly interested in the revisions being made by the ABA's Standing Committee on Legal Aid and Indigent Defendants (SCLAID) to the Standards for Providers of Civil Legal Assistance to the Poor. Because LSC has incorporated these standards into its competition process as one of the selection criteria, the OIG believes that we should comment on the revisions as part of the OIG's statutory responsibility to comment on existing and proposed regulations. The OIG has been in contact with representatives from SCLAID and advised them that the OIG intends to comment on the revisions, which are expected to be finalized at the ABA's mid-year meeting in early 2006.

MAPPING PROJECT

As I reported in greater detail in previous semiannual reports, the OIG has been evaluating the utility of mapping to support the management of legal services delivery to the LSC eligible population, as part of our mission to promote efficiency and effectiveness in the activities and operations of LSC and its grantees. The OIG is in the concluding phase of this evaluation and has begun to transfer all project assets to LSC management and will issue a summary report. The OIG will be recommending that LSC increase the availability of mapping to its grantees and further develop legal services mapping to support LSC functions.

This project identified, prototyped, and assessed the maps and census poverty information that are valuable to legal services decision-makers, in both urban and rural settings in Southern California, Georgia and Montana. The maps visualize the distribution and changes of the poverty populations over time. They compare the potential legal services client base to legal services delivered at various scales to give macro and micro-level views on access to legal services to low-income individuals from a geographic perspective. The evaluation's evidence supports that maps offer a visual model of the legal services environment that assists in planning, resource and performance management and program promotion.

The project was structured to allow for further development, replication and deployment by LSC and/or the LSC grantees. Highlights of the evaluation's second phase, which include interim results, resources developed and technical best practices are posted on the OIG Evaluation of Legal Service Mapping website at: <http://www.oig.lsc.gov/mapping/mapping.htm>.

The OIG commissioned an assessment of our project by James W. Meeker J.D., Ph.D., of the University of California, Irvine. Dr. Meeker recently completed the assessment in his paper, *Utilizing GIS to Study Legal Needs Issues: an Analysis of the LSC OIG Southern California Mapping Project*. Dr. Meeker introduced his paper as “an evaluation of an innovative effort by the Office of the Inspector General (OIG) of the Legal Services Corporation (LSC) to explore the utility of using Geographic Information Systems (GIS) (“mapping”) to analyze the distribution of services for five legal service providers in Southern California...” Dr. Meeker's paper points out that the application of GIS to analyze the delivery of legal services to the poor is a fairly new application; that many in the legal services community are unaware of both the strengths and weaknesses of this analytical approach; and that one of the major purposes of this project is to increase this awareness. The report, which can be found at the Evaluation's website, is another part of the process of the OIG concluding this work and transferring the project to LSC management.

AUDIT REPORTS ISSUED

for the Period Ending September 30, 2005

	<u>Title</u>	<u>Date Issued</u>
1.	Peer Review of EEOC's Office of Inspector General's Audit Program	April 12, 2005
2.	FY 2004 LSC Corporate Audit (Conducted by an independent public accounting firm)	April 20, 2005
3.	Landlord Build Out Allowance for LSC Headquarters Space	June 13, 2005
4.	LSC's Headquarters Office Space Needs	September 28, 2005

TABLE I
Audit Reports Issued with Questioned Costs
for the Period Ending September 30, 2005

No reports that questioned costs were issued this reporting period.

	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 September 30, 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	2	\$5,640,400*
Subtotals (A + B)		
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	2	\$5,640,400*
Reports for which no management decision had been made within six months of issuance	0	\$0

***NOTES**

Audit of LSC’s \$2 Million Landlord Contribution. The audit found that LSC may have paid \$203,240 for some leasehold improvements from LSC funds rather than charging the improvements against the \$2 million landlord contribution. On September 28, 2005, LSC management provided the OIG with management actions taken and requested that the significant recommendations be closed. LSC management actions indicated that LSC was unaware of any payments made by LSC that should have been paid using the leasehold improvement funds. As of the end of the reporting period, the OIG was evaluating LSC management actions and will keep the significant recommendations open until the analysis is complete.

Audit of LSC’s Office Space Needs. LSC management generally agreed to implement the recommendations and will provide the amount of savings, if any, it believes is appropriate when management actions are complete. The amount of funds put to better use was calculated by multiplying the number of years remaining on the LSC lease at the time the report was issued (7.67 years) times the potential overpayment per year (\$748,000), minus the amount of income LSC will receive from a 5-year sublease (\$300,000). This calculation resulted in an estimate of \$5,437,160 of funds that potentially could be put to better use.

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	13
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	10-12
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	17-19
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	18
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	19
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.

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.

Office of Inspector General
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington, DC 20007