

LEGAL SERVICES CORPORATION



Office of
Inspector General



Semiannual Report to the Congress
April 1, 2013 – September 30, 2013

www.oig.lsc.gov

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

A MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to submit this report on the activities and accomplishments of LSC's Office of Inspector General (OIG) for the period April 1, 2013, through September 30, 2013.

During this reporting period we conducted audits relating to the adequacy of internal controls, particularly with respect to grantee financial operations. While each audit identified multiple controls that needed to be strengthened and included recommendations for improvement, I am very pleased to report that our audits did not identify any significant problems, abuses, or deficiencies in the areas reviewed.

We entered the third year of our initiative to provide enhanced oversight of the independent audits required annually of LSC grantees. Firms performing grantee audits are now subject to a Quality Control Review (QCR) at least once every four years. During the period we issued eight QCRs. A total of 76 reviews have been completed under the program.

In addition to following up with individual audit firms and grantees after each review, we have also produced annual reports for the independent auditors and for all executive directors summarizing the results of the QCRs and identifying the principal exceptions and deficiencies found. We believe these reports and the overall process are extremely beneficial in identifying any systemic issues and in helping prevent the repetition of similar problems in future audits.

We continued with proceedings against one audit firm whose work was found via a QCR to be so deficient as to warrant rejection of the audit report and initiation of a debarment action.

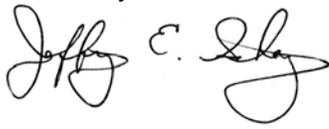
We opened 13 new investigations and closed 10 investigations during the reporting period. Among the investigations were criminal cases, involving fraudulent activity and financial irregularities by grantee employees, and regulatory matters, including the unauthorized outside practice of law and time and attendance irregularities. In one case resulting from an OIG investigation, a former grantee employee, convicted of federal program fraud, was sentenced to a term of imprisonment and ordered to pay over \$85,000 in restitution to the grantee.

We obtained a very favorable ruling in a long-standing subpoena enforcement action in connection with one of our investigations. The Court of Appeals for the D.C. Circuit upheld the district court's order enforcing our subpoena and went on to validate the OIG's position with respect to key aspects of the scope of our federal subpoena authority.

We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. We maintained an active calendar of grantee outreach visits, completing a total of 12 fraud awareness briefings and four vulnerability assessments. This period we also introduced a number of significant enhancements to our fraud awareness program.

I wish to express my continuing appreciation to LSC's Board of Directors for the interest and support they have shown for the work of the OIG. I also remain deeply appreciative to the Congress for its steadfast support of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey E. Schanz". The signature is written in a cursive style with a large, stylized "J" and "S".

Jeffrey E. Schanz
Inspector General
October 31, 2013

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OFFICE OF INSPECTOR GENERAL OVERVIEW

The LSC Office of Inspector General operates under the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3. The OIG has two principal missions: (1) to identify ways to promote economy and efficiency in the activities and operations of LSC and its grantees; and (2) to prevent and detect fraud and abuse.

Our primary tool for achieving these missions is objective and independent fact-finding. We perform financial and other types of audits, evaluations, and reviews, and conduct criminal and regulatory compliance investigations. Our fact-finding activities enable us to develop recommendations for LSC and its grantees, as well as for Congress, for actions that will correct problems, better safeguard the integrity of funds, improve procedures, and otherwise increase the economy, efficiency, and effectiveness of LSC programs.

The OIG is also tasked with ensuring the quality of audits of LSC and its grantees, 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, since 1996, LSC's annual appropriations have directed that grantee compliance with legal requirements be monitored through the annual grantee audits conducted by independent public accountants, under guidance developed by the OIG. Congress has also specified that the OIG has authority to conduct its own reviews of grantees.

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 organization, including setting OIG priorities, directing OIG activities, and hiring OIG personnel and contractors.

To ensure objectivity, the IG Act grants the LSC IG independent authority to determine what audits, investigations, and other reviews are performed, to gain access to all necessary documents and information, and to report OIG findings and recommendations to LSC management, its Board of Directors, and 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 *et seq.*, other than those transferred to the OIG under the IG Act and those otherwise assigned by Congress, for example in LSC's annual appropriations acts.

The IG reports 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 finds that there are reasonable grounds to believe that a crime has occurred. The IG is required by law to keep Congress informed of the activities of the office through semiannual reports and other means. The IG also provides periodic reports to the board

and management of LSC and, when appropriate, 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 or embezzlement), while others will be of broader application and may address more general or systemic issues.

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

During this reporting period, the OIG issued four audit reports, discussed below. The four reports identified over \$5,000 in questioned costs. Seven grantee audits were in progress at the end of the reporting period. Two of these audits were in the draft report stage; field work was in progress for the remaining grantees. Additional grantee audits were in the planning stage. The OIG also has four audits in progress at LSC headquarters.

The OIG has responsibility for overseeing the independent public accountant (IPA) audits performed annually at each grantee. During the reporting period, the OIG reviewed 111 IPA reports, with fiscal years ending from December 31, 2012, through March 31, 2013.

The OIG also issued eight Quality Control Review (QCR) reports this period under our QCR initiative. We scheduled 35 additional grantee audits for QCRs in 2013. The goal of this initiative is to improve the overall quality of the audits and to ensure that all audits are conducted in accordance with applicable standards and with the guidance provided by the OIG. The OIG required the IPAs for seven of the audits reviewed to provide further documentation or to complete additional audit work. We will be evaluating the information provided and monitoring the IPAs' corrective actions.

During the last reporting period, 20 QCRs identified deficiencies for which IPAs were required to provide the OIG additional documentation supporting the work performed or to perform additional audit work. IPAs have provided adequate documentation in response to 14 of these QCRs and are scheduled to provide documentation responsive to the remaining 6 QCRs during the next reporting period. Also during the last period, one QCR found deficiencies in an IPA's work so substantial as to lead to the OIG's issuance of a notice of proposed debarment to the IPA. Those proceedings are continuing.

Legal Services of the Virgin Islands – Audit of Selected Internal Controls

The OIG assessed the adequacy of selected internal controls at Legal Services of the Virgin Islands, Inc. (LSVI). We reported that although some controls needed to be strengthened, internal controls reviewed at LSVI were generally adequate as the controls related to specific grantee operations and oversight, including program expenditures, fiscal accountability, and compliance with selected LSC regulations.

The OIG found that:

- the grantee's accounting manual needed to be updated;
- the process for recording the physical inventory needed improvement; and
- the grantee's accounting manual did not address contracting or the use of consultants, as required by the LSC Accounting Guide.

The OIG made two recommendations: first, to address deficiencies in the grantee's accounting manual; and second, to ensure that all updated policies and procedures were properly implemented.

Grantee management agreed with all of the findings and recommendations and took immediate corrective actions to implement the recommendations.

Georgia Legal Services Program – Audit of Selected Internal Controls

The OIG assessed the adequacy of selected internal controls at Georgia Legal Services Program (GLSP), Atlanta, Georgia. We found that while in general many of the controls were adequately designed and properly implemented as the controls related to specific grantee operations and oversight, some controls needed to be strengthened and formalized in writing. We noted that the grantee needed to place more emphasis on establishing, documenting, and enforcing some of its internal controls.

The OIG found that GLSP needed to develop and implement policies and procedures relating to soliciting and awarding contracts. We reported that the grantee's current practices involving cost allocation and internal management reporting and budgeting were generally in accordance with the "Fundamental Criteria" provisions of the LSC Accounting Guide. However, we found that policies and procedures relating to cost allocation and internal management reporting and budgeting needed to be fully documented. We also noted that while management had documented most of its policies and procedures relating to inventory and client trust fund accounting, some additional procedures were needed to strengthen internal controls.

Finally, our review noted that the grantee did not have written policies regarding accounting for derivative income. While the grantee did not receive any derivative income during the period under audit, the potential for derivative income has increased in recent years, making it a necessity to have procedures in place to correctly account for and allocate such income when received.

The OIG made two recommendations. The first recommendation suggested that written policies and procedures be put in place to address contracting, cost allocation, internal management reporting and budgeting, and derivative income. The second recommendation suggested that written policies and procedures address client trust funds and inventory and property, as required by LSC's "Fundamental Criteria."

Grantee management agreed with the findings and recommendations contained in the report. Grantee management stated the program's entire accounting manual will be updated over the next twelve months. GLSP's comments also indicated that the updated manual will address, in writing, all of the issues raised in the report.

Central Virginia Legal Aid Society – Audit of Selected Internal Controls

The OIG assessed the adequacy of selected internal controls in place at Central Virginia Legal Aid Society (CVLAS), Richmond, Virginia. We reported that while many of the controls were adequately designed and properly implemented as the controls related to specific grantee operations and oversight, some controls needed to be strengthened and formalized in writing. We advised that the grantee needed to place more emphasis on establishing and documenting some internal controls.

The OIG found that CVLAS's current practices involving internal management reporting and budgeting, soliciting and awarding contracts, and wireless phones were generally in accordance with the LSC's "Fundamental Criteria." However, we noted that policies and procedures relating to these areas needed to be fully documented in writing.

Grantee disbursements tested generally were adequately supported and allowable. However, we found some issues that needed management attention, including disbursements we identified that were unsupported, unallowable, or unapproved. Examples included two instances where credit card expenses did not have supporting documentation; two instances where LSC funds were used to buy flowers and or make donations in lieu of flowers for bereaved employees; and two instances where office supplies were purchased without purchase orders required by the grantee's policy.

We also noted other areas where internal controls could be strengthened. The following areas lacked written policies and procedures and needed improvement because of inadequate:

- oversight over credit cards;
- practices over the recording of derivative income;
- cost allocation practices; and
- fixed assets policies, including an inadequate physical inventory practice.

In addition, job descriptions for all finance/accounting staff needed to be updated to reflect the current staffing situations and job responsibilities.

The OIG made 18 recommendations:

- four recommendations addressed the need for the grantee to have specific written policies and procedures;
- one recommendation addressed credit card use;
- two recommendations addressed the recording of derivative income;

- two recommendations related to the adequacy of the grantee's cost allocation policies and procedures;
- four recommendations addressed the need to enhance fixed assets policies and procedures; and
- the remainder of the recommendations addressed the need to enhance the disbursements process and maintain current job descriptions for finance and accounting personnel.

CVLAS management agreed in principle with all the findings and recommendations contained in the report. CVLAS management submitted an updated draft accounting manual incorporating many of the OIG's recommendations. Implementation of the recommendations regarding enforcement of policies and procedures is ongoing.

The OIG considers management's comments responsive to the findings and recommendations contained in the report. The actions planned by CVLAS management to revise and update the program's accounting manual as well as conduct meetings and training sessions with staff should correct the issues identified in the report.

Indiana Legal Services – Audit of Selected Internal Controls

The OIG assessed the adequacy of selected internal controls in place at Indiana Legal Services (ILS), Indianapolis, Indiana. We reported that while in general many of the controls were adequately designed and properly implemented as they related to specific grantee operations and oversight, some controls needed to be strengthened and formalized in writing. We noted that the grantee needed to place more emphasis on establishing and documenting some internal controls.

We reported that the following areas needed improvement with respect to written policies and procedures:

- soliciting and awarding contracts;
- cost allocation;
- derivative income;
- disposal of fixed assets; and
- the use of gas credit cards.

We identified a number of issues that needed management attention, including the following examples of disbursements that were unallowable, unsupported, or inappropriately processed:

- four instances where LSC funds were used to pay for late fee charges incurred through credit cards and gas cards;
- four instances where disbursements did not have supporting documentation;
- four instances where LSC funds were used to buy flowers or make donations in lieu of flowers for bereaved employees; and
- fourteen instances where purchase orders were not prepared in accordance with the grantee's purchasing procedures.

We also noted other areas where internal controls with respect to inventory processes and practices could be improved.

The OIG made 12 recommendations for improvement:

- one recommendation addressed the need to enforce current policies and procedures;
- six recommendations addressed the need to develop or augment policies and procedures in the areas of contracting, cost allocation, derivative income, fixed assets, and the use of gas credit cards;
- one recommendation addressed the need to develop a mileage reimbursement plan; and
- four recommendations addressed the need to improve physical inventory record-keeping and accountability.

ILS management agreed with the findings and recommendations contained in the report. ILS management stated its accounting manual will be updated to address deficient policies and procedures listed in the report. ILS management also submitted additional documentation and explanations to support some disbursements that the OIG questioned. The OIG considers management's planned actions responsive to the findings and recommendations contained in the report.

Statistical Summary

Audit Reports

Open at beginning of reporting period	8
Issued during reporting period	4
Closed during reporting period	3
Open at end of reporting period.....	9

Recommendations to LSC Grantees

Pending at beginning of reporting period	36
Issued during reporting period	34
Closed during reporting period	11
Pending at end of reporting period	59

Recommendations to LSC Management

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

Oversight of IPA Audits

Independent Audits of Grantees

Since 1996, LSC's annual appropriations acts have required that each person or entity receiving financial assistance from the Corporation be subject to an annual audit, to be conducted by an independent public accountant (IPA). Each grantee contracts directly with an IPA to conduct the required audit in accordance with generally accepted government auditing standards and the OIG Audit Guide for Recipients and Auditors (including the Compliance Supplement), which incorporates most requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA process. Our oversight activities include desk reviews and a recently enhanced program of quality control reviews.

Desk Reviews of IPA Reports

The OIG conducts desk reviews of all IPA reports issued to grantees. This process enables us to identify and forward significant IPA findings to LSC management as necessary. We also track recommendations to determine whether appropriate responsive actions have been taken. We use information from the review of the IPA reports as part of our risk assessment and planning processes, identifying potential problems or concerns that may warrant follow-up via audit, investigation, or other review.

Quality Control Reviews

The OIG is in the third year of our Quality Control Review (QCR) initiative, a comprehensive program under which IPA firms performing grantee audits will be subject to at least one QCR every four years. The QCRs determine whether the IPA's financial statement audit work, compliance audit work, and the associated review of internal controls over both financial reporting and compliance were conducted in accordance with applicable standards and in compliance with the instructions issued by our office. The reviews are conducted by a CPA firm under contract to the OIG. The contractor also identifies issues that may require additional attention or any additional audit work by the IPA under review.

Quality Control Review Results

This reporting period the OIG issued eight QCR reports to IPAs. Seven additional QCRs have been completed by the contractor and are under review by the OIG prior to their being issued to the IPAs.

Of the eight QCRs issued this reporting period, five identified deficiencies that required the IPAs to provide the OIG with additional documentation to support the conclusions reached. The remaining three QCRs found no deficiencies. The OIG will review additional documentation required to be provided by the IPAs to ensure that LSC grantees receive an acceptable audit.

During the last reporting period, 20 QCRs identified deficiencies for which IPAs were required to provide the OIG additional documentation supporting the work performed or to perform additional audit work. This reporting period, we evaluated the documentation submitted by 14 of the IPAs and determined that for all 14 QCRs the documentation provided adequately demonstrated that the deficiencies identified had been corrected. For the remaining six QCRs, the IPAs are scheduled to submit supporting documentation during the next reporting period.

Based on the findings of a QCR issued in a previous period, the OIG had rejected the subject audit report and issued a notice of proposed debarment to the IPA. Noting that the QCR found substantial deficiencies in the IPA's work, the OIG cited multiple violations of government auditing standards in initiating the debarment action. The regulation governing debarment actions allows an IPA an opportunity to respond to a notice of proposed debarment. During this period the IPA provided its response; the affected grantee also provided comments in response to the notice, as permitted under the regulation. We contracted with an independent audit firm to perform fact-finding. Should the OIG ultimately decide to debar the IPA, the IPA would be prohibited from providing audit services to any LSC grantee for a period of up to three years.

Follow-up Process

LSC's annual appropriations acts have specifically required that LSC follow-up on significant findings identified by the IPAs and reported to the Corporation's management by the OIG. IPA audit reports are submitted to the OIG within 120 days of the close of each grantee's fiscal year. As noted above, through our desk review process the OIG reviews each report and refers appropriate findings and recommendations to LSC management for follow-up. LSC management is responsible for ensuring that grantees submit appropriate corrective action plans for all material findings, recommendations, and questioned costs identified by the IPAs and referred by the OIG to management.

After corrective action has been taken by a grantee, LSC management so advises the OIG and requests that the finding(s) be closed. The OIG reviews management's request and decides independently whether it will agree to close the finding(s).

Review of Grantees' Annual Audit Reports: IPA Audit Findings

In order to provide more complete information in our semiannual reports to Congress, the OIG customarily includes a summary of significant findings and the status of follow-up on significant findings reported by the IPAs as part of the grantee oversight process. The audit reports and the findings identified below reflect the work of the IPAs, not the OIG.

During the reporting period, the OIG reviewed 111 IPA audits of grantees with fiscal year ending dates from December 31, 2012, through March 31, 2013. These audit reports contained 31 findings. The OIG determined that 19 findings were not significant or that corrective action had already been completed and closed the findings. The remaining 12 findings were referred to LSC management for follow-up. The tables below present information on those findings.

Summary of Findings for Grantee Audit Reports Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2012, through March 31, 2013

Total Number of Findings Referred	12
Number of Findings with Corrective Action Accepted by LSC Management.....	9
Number of Findings Awaiting LSC Management Review	3

Types of Findings Referred to LSC Management for Follow-up

<u>Category</u>	<u>Number of Findings</u>
Financial Transactions and Reporting	4
Policies and Procedures (establishment/compliance)	5
Timekeeping.....	2
Fund Balance	1
 TOTAL	 12

INVESTIGATIONS

OIG investigations this reporting period resulted in one sentencing action that also included an order of restitution requiring that over \$85,000 be repaid to an LSC grantee. The OIG opened 13 investigations during this period. These included seven criminal investigations, two compliance matters, two fraud vulnerability assessments, and two regulatory vulnerability assessments. The criminal investigations included allegations of fraudulent activity and financial irregularities. The compliance investigations included allegations of violations of LSC statutes and regulations involving matters such as the outside practice of law and time and attendance abuse.

The OIG closed 10 investigations during the reporting period. These included two criminal investigations, four compliance matters, one fraud vulnerability assessment, and three regulatory vulnerability assessments. The OIG also issued 13 Inspector General subpoenas in connection with our ongoing investigations.

Criminal Proceedings

Former Grantee Employee Sentenced for Federal Program Fraud

A former employee of an LSC grantee was sentenced in federal district court on June 25, 2013, on charges stemming from a scheme to defraud the grantee. During the previous reporting period, the former employee was indicted and pled guilty to one felony count of federal program fraud in violation of 18 U.S.C. §666(a)(1)(A). The defendant had filed mileage reimbursement claims and received grant funds for expenses she did not incur. The defendant was a caseworker responsible for conducting outreach visits to health care and senior citizen facilities. Over a period of several years she had regularly claimed her salary and travel reimbursements for such visits even though, without the grantee's knowledge, she routinely failed to conduct them and often simply remained at home. The defendant was sentenced to five months' imprisonment, to be followed by five months of home detention, and three years of supervised probation upon termination of the home detention. In addition, she was ordered to make restitution of over \$85,000 to the program. The investigation was conducted jointly by our office and the Office of Inspector General, Department of Health and Human Services.

Proactive Fraud Prevention Initiatives

The OIG maintains an active fraud prevention program, engaging in a variety of outreach and educational efforts intended to help protect LSC and its grantees from fraud and abuse. We regularly conduct fraud awareness briefings, fraud vulnerability assessments, and regulatory vulnerability assessments, and provide fraud alerts and other information that we believe will help increase grantees' awareness of potential vulnerabilities. This period we also introduced an enhanced fraud awareness briefing program.

Fraud Awareness Briefings

Fraud awareness briefings (FABs) are presented by OIG investigative staff and cover topics such as who commits fraud, what conditions create an environment conducive to fraud, why people are motivated to commit fraud, how fraud can be prevented or detected, and what to do if fraud is suspected.

While individuals at LSC-funded programs may be generally aware that fraud and abuse can occur at any organization, they may not be aware of the potential for such incidents to occur “close to home,” within their own programs. Moreover, we have found that program staff members often think that if there is any wrongdoing, it must be minimal. Our FABs highlight the unfortunate truth that a number of LSC-funded programs have been victimized by frauds involving hundreds of thousands of dollars, and even in one case the diversion of over a million dollars in grant funds. The FABs describe common types of fraud, with particular focus on the various schemes that have been perpetrated against LSC grantees and the conditions that helped facilitate the losses. The briefings aim to foster a dialogue with grantee staff and to engender suggestions for ways to help them protect their own programs from fraud and abuse.

LSC grantees are invited to request a fraud awareness briefing at a time and place convenient to them. We make every effort to accommodate requests as promptly as possible. We encourage attendance by all program staff and welcome the grantee’s board members, outside auditors, and other interested parties.

Since initiating the FAB program in 2009 we have conducted 77 briefings for grantees in 36 states, as well as briefings for the LSC Board of Directors, LSC Headquarters personnel, a presentation at the National Legal Aid & Defender Association annual conference, and two webinars that each reached multiple grantees.

During this period we also developed and launched a significant enhancement to our FAB program. The initial FAB program consisted of a half-day visit with two-hour briefings to program staff. The enhanced FAB program now consists of day-long visits to LSC grantees that include not only an all-staff fraud awareness briefing but also in-depth fraud prevention and fraud detection sessions with the executive director, principal financial officer and financial staff, outside auditor, and one or more members of the grantee’s board of directors, typically including the chair of the audit committee. During these enhanced FABs, attendees are provided with a guide developed by the OIG that describes LSC grantee-specific fraud indicators. OIG investigative staff members also meet with one or more grantee board members to discuss the board’s role in preventing and detecting fraud, including the board’s responsibility to supervise the executive director.

The enhanced FABs are an extension of the OIG’s fraud prevention outreach efforts. This period we conducted five FABs for LSC-funded programs in Pennsylvania, Vermont, and Virginia (three), and seven enhanced FABs for LSC-funded programs in Colorado, Connecticut, Georgia, Massachusetts, New Hampshire, South Carolina, and Wyoming.

Fraud Vulnerability Assessments

The OIG's fraud vulnerability assessments (FVAs) are conducted on-site at individual grantee's offices and consist of focused document reviews in areas considered high risk or prone to abuse, along with a review of grantee internal control policies and the degree to which those policies are observed in practice. We also brief the executive director and principal financial officer on fraud detection and prevention measures appropriate to their particular program.

A typical FVA might include reviews of credit card transactions, petty cash, bank account reconciliations, travel claims, office supply expenses, and other selected areas that have been linked to the commission of fraud at several LSC grantee programs. These reviews can help grantees identify both existing vulnerabilities and potential problem areas. FVAs sometimes detect ongoing fraud or abuse and result in further investigation. FVAs also serve as a deterrent by helping make grantee staff members more aware of the potential for fraud and reminding them that the OIG will investigate and seek to prosecute cases involving fraud or the misuse of LSC grant funds.

One FVA was completed during the period for a grantee in Florida. We conducted field work on two other FVAs for grantees in Pennsylvania and Illinois; those reports are pending. The reviews did not disclose indicators of fraud but did identify several opportunities for improvement.

Regulatory Vulnerability Assessments

The OIG's regulatory vulnerability assessments (RVAs) are conducted on-site at individual grantee's offices. This initiative was triggered by our experience in recent years in investigating numerous financial frauds in which grantees were victimized. We often found that noncompliance or laxity with respect to certain regulatory and other requirements contributed to an environment that increased the potential for fraud. RVAs seek to determine whether the grantee is following applicable provisions of the LSC Act, LSC regulations, grant assurances, provisions of the Accounting Guide, and case documentation and reporting requirements (as set forth in LSC's Case Service Report Handbook). We have found that by focusing on certain key areas, in addition to identifying potential problems from a regulatory compliance point of view, grantees are also able to benefit by applying the classic "ounce of prevention" to areas where there may be broader potential financial vulnerabilities as well.

Three RVAs were completed during the reporting period at grantee programs in California, Kentucky, and Vermont. We also conducted field work on an RVA for a grantee in Virginia; that report is pending. The reviews did not disclose indicators of fraud but did identify several opportunities for improvement.

Hotline

The OIG maintains a Hotline for reporting illegal or improper activities involving LSC or its grantees. Information may be provided by telephone, fax, email, or regular mail. Upon request, a provider's identity will be kept confidential. Reports may also be made anonymously.

During this reporting period, the OIG received 62 Hotline contacts (compared to 63 for the previous period). Of these matters, 15 were referred to LSC management for follow-up; three were opened as investigations; one is open pending further inquiry; and the remaining 43 were closed.

Statistical Summary

Investigative Cases

Open at the beginning of period	11
Opened during period	13
Closed during period	10
Open at the end of period.....	14

Prosecutorial Activities

Sentenced	1
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Investigative Activities

Inspector General subpoenas issued.....	13
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Monetary Results

Order of restitution to LSC-funded grantee.....	\$85,328
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OTHER OIG ACTIVITIES

Litigation – Court of Appeals Upholds Subpoena Enforcement Order

On July 12, 2013, the U.S. Court of Appeals for the District of Columbia Circuit issued a unanimous opinion upholding a district court order granting the OIG's petition for enforcement of a subpoena issued to California Rural Legal Assistance (CRLA), an LSC grantee. *U.S. v. California Rural Legal Assistance, Inc.*, 722 F.3d 424 (D.C. Cir. 2013).

The matter in question began in September 2005, when the Subcommittee on Commercial and Administrative Law of the House Judiciary Committee forwarded to the OIG a complaint about CRLA from a confidential source. The OIG initiated an investigation and on September 14, 2006, issued an interim report stating the OIG had developed substantial evidence from multiple sources indicating that CRLA had violated federal law. The report also noted that the OIG would not be able to complete its investigation until CRLA provided information the OIG had previously requested. In light of CRLA's failure to produce the information, on October 17, 2006, the OIG issued a subpoena to CRLA. CRLA, however, refused to provide the responsive information. On March 23, 2007, the OIG filed a subpoena enforcement petition in the United States District Court for the District of Columbia. The district court granted the OIG's petition on November 14, 2011; CRLA appealed the district court's order, and the OIG cross-appealed.

The D.C. Circuit's ruling upholds the OIG's longstanding legal position regarding its CRLA subpoena and its subpoena authority in general. The court held that language in the LSC Act precluding the Corporation from "abrogat[ing] the authority of a State or other jurisdiction to enforce the standards of professional responsibility generally applicable to attorneys" in that jurisdiction did not "purport to constrain the investigatory authority of the OIG of LSC." Having analyzed the law of the circuit and disposed of CRLA's contentions, the court concluded: "In the end, we are back to the fundamental principle recognized by the Supreme Court ... and applied by us in the subpoena context: 'federal law governs questions involving the rights of the United States arising under nationwide federal programs.'" In so ruling, the court clearly established the rules that govern the OIG's subpoena of CRLA, as well as any future subpoenas the OIG might issue in unrelated investigations. The court also agreed with the OIG's position that statutorily authorized use of certain information obtained through its subpoena could not, under the circumstances of the case, be restricted through imposition of additional conditions in a protective order.

Contracting Review

During the reporting period, the OIG undertook a review of the process by which LSC awarded a sole-source contract to a consulting firm to conduct a compensation study. The OIG identified deficiencies in LSC's procurement planning and a number of defects in the procurement process itself, noting that LSC's procurement policies and procedures did not appear to allow for sole-source procurement in circumstances such as those presented in the compensation-study review. In addition, the OIG noted a lack of required procurement

documentation and the omission of contract terms required by LSC policy. Given the timing of the OIG's review (the contract had already been executed), the OIG did not recommend re-procuring the services at issue, but did provide a memorandum report to management with a series of prospective recommendations. LSC management accepted all of the OIG's recommendations, and indicated its intention to conduct training and compile appropriate documentation to help ensure the procurement process established by LSC's Administrative Manual is fully implemented in future procurements.

Freedom of Information Act

The OIG is committed to complying fully with the requirements of the Freedom of Information Act (FOIA). During this reporting period, the OIG received and responded to six FOIA requests.

Professional Activities and Assistance

The OIG participates in and otherwise supports various activities and efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), as well other inter-agency and professional groups. The IG serves as a member of the CIGIE Audit Committee, which focuses on government auditing standards and cross-cutting audit issues. Senior OIG officials are active participants in IG community peer groups in the areas of audits, investigations, inspections and evaluations, public affairs, new media, and legal counsel. The groups provide forums for collaboration and are responsible for such initiatives as developing and issuing professional standards, establishing protocols for and coordinating peer reviews, providing training programs, and promulgating best practices. The OIG also routinely responds to requests for information or assistance from other IG offices.

APPENDIX – PEER REVIEWS

The following information is provided pursuant to the requirements of Section 989C of Public Law 111-203 (July 21, 2010), the Dodd-Frank Wall Street Reform and Consumer Protection Act, amending the Inspector General Act of 1978 (the IG Act), 5 U.S.C. App. 3. The references are to the newly added provisions of Section 5(a) of the IG Act.

(14)(B) – The last peer review of the OIG was conducted by the Office of Inspector General for the Corporation for Public Broadcasting, and was completed on September 30, 2011.

(15) – There are no outstanding recommendations from any peer review of the OIG conducted by another Office of Inspector General that have not been fully implemented.

(16) – The OIG did not conduct a peer review of another Office of Inspector General during this reporting period. There are no outstanding recommendations made from any previous peer review that remain outstanding or have not been fully implemented.

TABLE I

Audit Reports and Quality Control Reviews Issued for the Period Ending September 30, 2013

Audit Reports

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	<u>Funds Put to Better Use</u>	<u>Unsupported Costs</u>
Report on Selected Internal Controls – Legal Services of the Virgin Islands, Inc.	5/09/13	\$0	\$0	\$0
Report on Selected Internal Controls – Georgia Legal Services Program	7/09/13	\$0	\$0	\$0
Report on Selected Internal Controls – Central Virginia Legal Aid Society, Inc.	9/30/13	\$909	\$0	\$130
Report on Selected Internal Controls – Indiana Legal Services, Inc.	9/30/13	\$4,159	\$0	\$3,492

Quality Control Reviews

<u>IPA</u>	<u>Recipient</u>	<u>Date Issued</u>
1 James Knutsen & Associates	Community Legal Services of Mid-Florida	4/16/13
2 Falkins and Company CPAs	Coast to Coast Legal Aid of South Florida	5/15/13
3 JMM & Associates	Legal Services Law Line of Vermont	9/10/13
4 Wegner CPAs LLP	Wisconsin Judicare	9/10/13
5 Barnes Wendling CPAs	Community Legal Aid Services	9/26/13
6 Barnes Wendling CPAs	Legal Aid Society of Cleveland	9/26/13
7 Gainer Donnelly LLP	Lone Star Legal Aid	9/30/13
8 Marcum, LLP	Statewide Legal Services of Connecticut	9/30/13

TABLE II

Audit Reports Issued with Questioned Costs for the Period Ending September 30, 2013

	<u>Number of Reports</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period.	4	\$1,656,754	\$275,431
B. Reports issued during the reporting period	2	\$5,068	\$3,622
<i>Subtotals (A + B)</i>	6	\$1,661,822	\$279,053
C. For which a management decision was made during the reporting period:	1	\$55,741	\$55,741
(i) dollar value of recommendations that were agreed to by management		\$4,275	\$4,275
(ii) dollar value of recommendations that were not agreed to by management		\$51,466	\$51,466
D. For which no management decision had been made by the end of the reporting period	5	\$1,606,081	\$223,312
Reports for which no management decision had been made within six months of issuance	3	\$1,601,013	\$219,690

TABLE III

Audit Reports Issued with Funds to Be Put to Better Use for the Period Ending September 30, 2013

	<u>Number of Reports</u>	<u>Dollar Value</u>
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
<i>Subtotals (A + B)</i>	<i>0</i>	<i>\$0</i>
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 IV

Audit Reports Issued Before this Reporting Period for Which No Management Decision on Questioned Costs Was Made by the End of the Reporting Period

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	<u>Comments</u>
Report on Selected Internal Controls – Inland Counties Legal Services	8/06/12	\$1,367,480	Notice of questioned costs issued.
Report on Selected Internal Controls – Lone Star Legal Services	1/15/13	\$18,482	Under review.
Examination of Expenditures Incurred for the Performance of TIG Grants Awarded to Idaho Legal Aid Services	3/28/13	\$215,051	Under review.

Audit Reports Issued Before this Reporting Period with Open Recommendations as of the End of the Reporting Period

<u>Report Title</u>	<u>Date Issued</u>	<u>Comments</u>
Report on Selected Internal Controls – Legal Services of Northern Virginia, Inc.	9/30/11	LSC management is working with the grantee to resolve all open recommendations.
Report on Selected Internal Controls – North Mississippi Rural Legal Services	3/30/12	Corrective action in progress.
Report on Selected Internal Controls – Texas RioGrande Legal Aid, Inc.	6/12/12	Corrective action in progress.
Report on Selected Internal Controls – Inland Counties Legal Services, Inc.	8/06/12	Corrective action in progress.
Report on Selected Internal Controls – Lone Star Legal Aid	1/15/13	Corrective action in progress.
Report on Selected Internal Controls – Community Legal Services	3/21/13	Corrective action in process.

TABLE V

Index to Reporting Requirements of the Inspector General Act

<u>IG Act Reference*</u>	<u>Reporting Requirement</u>	<u>Page</u>
Section 4(a)(2)	Review of legislation and regulations.	None
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.	23
Section 5(a)(4)	Matters referred to prosecutive authorities.	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.	20
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.	21
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	22
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.	23
Section 5(a)(11)	Significant revised management decisions.	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	None
Section 5(a)(14)-(16)	Peer reviews.	19

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

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