

OFFICE OF INSPECTOR GENERAL

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<http://oig.lsc.gov/>

October 30, 2000

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

This Semiannual Report on the activities of the Office of Inspector General of LSC covers the six-month period from April 1, through September 30, 2000. Section 5 of the Inspector General Act of 1978 requires that the Board of Directors, as the designated Federal entity head, transmit this report to the appropriate committees of the Congress within 30 days, together with its report commenting on the contents of the Report.

E. R. Quatrevaux
Inspector General

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EXECUTIVE SUMMARY

Our Assessment of 1999 Case Statistical Data detected an error rate of 13 percent in the closed cases data submitted by grantees nation-wide. (Page 2)

Thirty reports of Audit Service Reviews were issued. The ASRs determine if the audits conducted by independent public accountants properly reviewed grantees compliance with restrictions and prohibitions. (Page 2)

A Summary Report covering the findings from the annual audit reports submitted by independent public accountants was also issued. (Page 3)

A former employee of an LSC grantee was sentenced. (Page 5)

Four Client Trust Fund Inspection Reports were issued. (Page 5)

The Inspector General recommended statutory language that would grant the OIG access to grantee records protected by the attorney-client privilege. (Page 7)

INTRODUCTION

Corporate Structure

The Board of Directors of the Legal Services Corporation ("LSC" or "the Corporation") is composed of 11 members appointed by the President of the United States with the advice and consent of the Senate. The Board sets general policy and oversees the management of the Corporation. The Inspector General reports directly to the Board in its capacity as head of the entity. The Board also appoints the President of the Corporation, who serves as the principal management official of the Corporation.

Grant-Making Activities

The Corporation is authorized by Congress to make grants and contracts to support the provision of civil legal assistance to clients who meet eligibility requirements. The Corporation makes grants to entities that, in turn, provide legal assistance to indigent persons throughout the United States, Puerto Rico, the U.S. Virgin Islands, Guam, and Micronesia.

Certification of Independence

Inspector General operations in this period were free of personal or organizational impairment.

AUDITS

In this period, the Office of Inspector General reported the results of the Congressionally-mandated Assessment of 1999 Case Statistical Data. Thirty Audit Service Review reports and a summary report on the Results of Recipient Audit Reports for the Year Ended December 31, 1999 were also issued.

Assessment of 1999 Case Statistical Data

Congress directed the Office of Inspector General to assess the 1999 case statistical data provided by LSC grantees and report the results to the Appropriations Committees by July 30, 2000. The Assessment's objective was to determine the accuracy of the 1999 closed case data submitted by LSC grantees. Producing an assessment of the accuracy of case statistics on a *national* level within a limited time frame was a major challenge. The Assessment was conducted with statistical rigor, dealt with complex issues, and addressed grantees' data collection concerns. Despite two grantees' denial of access to data, the Assessment was completed successfully and the report on its results was delivered to Congress on time.

Based on a detected error rate of 13 percent, the OIG estimated that the grantees should not have reported 135,027 closed cases. The OIG estimated that 903,635 closed cases should have been reported in 1999, as opposed to the 924,000 closed cases reported to Congress by LSC management.

Audit Service Review Reports

Audit Service Reviews (ASRs) examine the working papers of the independent public accountants (IPAs) who conduct the annual financial and compliance audits of LSC grantees. The objective of the ASRs is to determine if the independent public accountants properly reviewed grantees' compliance with 14 restrictions and prohibitions imposed by Congress.

The OIG issued 30 ASR reports during the period. Twenty-four of the reviews found that the IPAs adequately tested the grantees' compliance with LSC regulations and that the audit reports provided reasonable assurance that the grantees complied with the LSC regulations. Four ASRs disclosed relatively minor deficiencies in the IPAs' work, and two ASRs disclosed significant problems in the IPAs' compliance testing. The OIG required the IPAs to perform additional tests to correct the significant problems.

Prior Period Recommendations

There are 11 open recommendations to LSC management from prior reporting periods. They are as follows:

Report on Inspection of Alternative Work Arrangements. Seven recommendations to improve LSC's alternative work arrangements program remain open. Actions to implement the recommendations are underway. We expect to close these recommendations during the next reporting period.

Legal Aid Bureau, Incorporated (Maryland) (Recipient No. 321016) - Compliance with Selected Regulations Performance Audit. One recommendation that LSC management should review the applicability of the regulation on alien eligibility to children in long-term foster care remains open.

Fiscal Year 1999 Audit of the Corporation. Three recommendations delineate how LSC management could improve its financial accounting procedures. LSC management is working toward implementing these recommendations.

Audit Service Review Reports Issued

*Chautauqua County Legal Services
Cumberland Trace Legal Services, Inc.
East River Legal Services
Idaho Legal Aid Services, Inc.
Inland Counties Legal Services
Knoxville Legal Aid Society
Legal Aid of Southwest Missouri
Legal Aid of Western Michigan
Legal Aid of Western Oklahoma
Legal Aid Society of Cleveland
Legal Aid Society of Rockland County
Legal Services for Cape Cod & Islands, Inc.
Legal Services of North Carolina
Legal Services of Northwest Ohio
Monroe County Legal Assistance Corporation*

*Northwest Justice Project
Rappahannock Legal Services
San Fernando Valley Neighborhood Legal Services
South Mississippi Legal Services Corporation
Southern Arizona Legal Aid, Inc.
Southside Virginia Legal Services
Southwest Louisiana Legal Services
Texas Rural Legal Aid
West Tennessee Legal Services
West Virginia Legal Services Plan
Wisconsin Judicare, Inc.
Montana Legal Services Association
Nassau/Suffolk Law Services
North Dakota Legal Services
North Texas Legal Services*

INVESTIGATIVE ACTIVITIES

Four cases were opened during this reporting period, and two cases were closed. The OIG Hotline was contacted thirty-four times.

In a previously reported referral involving the misappropriation of approximately \$40,000, a former employee of a Nevada grantee was convicted on July 24, 2000 of one count of Theft of Government Property. The former employee was sentenced to five months in jail, three years probation, and restitution was ordered.

Client Trust Fund Inspections

Four reports of Client Trust Fund Inspections covering 10 sites were issued. Two additional sites were visited and the final reports are pending. The inspections found that the grantees were in general compliance with LSC requirements, but matters beyond the scope of these inspections were referred to LSC management as potential compliance issues.

Prior Period Recommendations

Remaining open is a November 1999 recommendation that LSC clarify its policy and procedures pertaining to employee personal use of FAX services.

INVESTIGATIVE CASELOAD

<i>Open at beginning of reporting period</i>	16
<i>Opened during reporting period</i>	4
<i>Closed during reporting period</i>	2
<i>Open at end of reporting period</i>	18

INVESTIGATIONS OPENED

<i>Relating to LSC</i>	0
<i>Relating to LSC Grantees</i>	4

CLIENT TRUST FUND INSPECTIONS

<i>Open at beginning of reporting period</i>	1
<i>Opened during reporting period</i>	5
<i>Closed during reporting period</i>	4
<i>Open at end of reporting period</i>	2

RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION

<i>Open from previous period</i>	1
<i>Reported during this reporting period</i>	0
<i>Closed during this period</i>	0
<i>Open at end of reporting period</i>	1

PROSECUTIVE ACTIVITIES

<i>Referred for prosecution this reporting period</i>	0
<i>Prosecution (declined from prior and current period referral)</i>	0
<i>Pending Action</i>	1
<i>Convictions</i>	1

LEGISLATIVE AND REGULATORY REVIEW

Statutory Recommendation

During the reporting period, the IG made recommendations to Congress concerning existing and proposed legislation affecting LSC. The OIG also reviewed draft regulations and policy guidance.

First, the IG recommended that Congress consider modifying the access provisions of current law to ensure that the OIG would be able to perform its statutory functions effectively and efficiently. The recommended statutory language was based on events demonstrating that the OIG likely will have to obtain judicial enforcement of subpoenas whenever it conducts oversight activities of LSC grant recipients.

Second, the IG recommended that the additional funds requested by LSC management for FY 2001 to expand its compliance oversight activities, including on-site compliance inspections, be put to better use. This recommendation was based on the OIG view that LSC compliance inspection procedures were ineffective.

In the same correspondence, the IG reported that actions by certain members of the LSC leadership had served to undermine the OIG's access to grantee records, access necessary to the OIG's performance of its statutory functions. The LSC President questioned the Inspector General's authority to issue certain subpoenas in a "press release" sent to all grantees, and a representative of the Board of Directors requested a justification for the subpoenas. Instead, the Inspector General informed the Board of Directors that it had no appropriate role in the subpoena process, and provided a legal memorandum to that effect. The Board of Directors' later announced its intention to "consider and act on" its representative's report concerning the Inspector General's issuance and enforcement of subpoenas. The Board took no action on the matter.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending September 30, 2000**

		NUMBER 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 September 30, 2000**

	NUMBER 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	7
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	None
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	8
Section 5(a)(7)	Summary of each particularly significant report	2
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	8
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	9
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.