

Office of Inspector General

Semiannual Report to the Congress
APRIL 1, 2001 - SEPTEMBER 30, 2001

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October 25, 2001

**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, 2001 through September 30, 2001. 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.

**Leonard J. Koczur
Acting Inspector General**

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EXECUTIVE SUMMARY

The OIG issued two audit reports on grantees' compliance with regulations governing relationships with entities that engage in prohibited activities. Both grantees complied with the regulations. A third report summarized the results of Independent Public Accountants' audits of grantees' financial statements and compliance with regulations during calendar year 2000. (Page 2)

Eight reports on Audit Service Reviews (ASR) were issued. The ASRs determine whether the audits conducted by independent public accountants properly reviewed grantees' compliance with restrictions and prohibitions. (Page 2)

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

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.

A U D I T S

During this reporting period, the Office of Inspector General issued audit reports on Pine Tree Legal Assistance, Inc. and Legal Aid Society of Hawaii compliance with program integrity requirements. In addition, a summary report on the Recipient Audit Reports for calendar year 2000 and eight Audit Service Review (ASR) reports were issued.

PROGRAM INTEGRITY AUDITS

The OIG is reviewing grantee operations to determine if they are complying with LSC requirements on relationships with entities that engage in prohibited activities. During this reporting period, the OIG issued audit reports on Pine Tree Legal Assistance, Inc. and Legal Aid Society of Hawaii. The OIG audits determined that both grantees generally complied with the LSC program integrity regulations during the period covered by the reviews. The OIG audits did, however, reveal some problems in areas not related to program integrity and both grantees have addressed these issues.

SUMMARY REPORT ON RESULTS OF RECIPIENTS' AUDITS

The OIG issued a report summarizing the results of the 235 recipient audit reports for the year ended December 31, 2000. IPAs reported 71 findings. The OIG reviewed the findings and concluded that 32 were significant and referred them to LSC management for follow-up. None of the findings reported that the grantees failed to comply with prohibitions and restrictions on the provision of legal services. A significant number of findings related to internal control weaknesses such as a failure to follow procedures or delays in processing financial transactions. The second highest number of findings were for missing or unsigned documents.

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 grantee's compliance with 14 restrictions and prohibitions imposed by Congress.

The OIG issued eight ASR reports during this period. Six 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 LSC regulations. Two reviews found that the case samples selected for testing compliance were inadequate, and the OIG required the IPAs to complete additional testing to correct the deficiencies. During this reporting period, the OIG reviewed the additional work that one of the above IPAs was required to perform and determined that the corrective action was sufficient to provide reasonable assurance that the recipients complied with LSC laws and regulations.

CORPORATE AUDIT

The OIG entered into a contract with a new independent public accounting firm to audit LSC's fiscal year 2001 financial statements. This firm will begin on-site audit work early in the next reporting period and issue an opinion on LSC's statement of financial position as of September 30, 2001, and on the related statements of operations and cash flows. The report is scheduled for issuance in January 2002.

Audit Reports

Open at beginning of reporting period	1
Issued during reporting period	3
Closed during reporting period	3
Open at end of reporting period	1

Audit Service Review Reports

Pending at beginning of reporting period	0
Issued during reporting period	8
Closed during reporting period	7
Pending at end of reporting period	1

Recommendations to LSC Grantees

Pending at beginning of reporting period	4
Reported during this period	2
Closed during this reporting period	5
Pending at end of reporting period	1

Recommendations to LSC Management

Pending at beginning of reporting period	0
Reporting during this period	0
Closed during report period	0
Pending at end of reporting period	0

Audit Service Review Reports Issued

- East Texas Legal Services, Inc.
- Nevada Legal Services, Inc.
- Center for Arkansas Legal Services
- Legal Aid of Central Michigan
- Legal Services of Eastern Oklahoma, Inc.
- Legal Aid Society of Middle Tennessee
- Legal Services of Eastern Michigan
- Neighborhood Legal Services Association

INVESTIGATIVE ACTIVITIES

Five cases were opened and six cases were closed during this reporting period. In the prior reporting period, the OIG closed a case that involved embezzlement of funds by a former employee of a South Carolina grantee. A Judgment in the case was issued during this reporting period. The former employee was sentenced to probation for five years; home confinement for four months with electronic monitoring, and ordered to pay restitution of \$12,679.

During the reporting period, the OIG maintained a Hotline. Forty-six telephone complaints were received and resolved.

INVESTIGATIVE CASES

Open at beginning of period	2
Opened during the period	5
Closed during reporting period	6
Open at end of the period	1
Recommendations to MGT for Corrective Action	0

PROSECUTORIAL ACTIVITIES	1
Referred this period	0
Declined prior and this period	0
Pending	0
Convictions	0
Guilty Pleas	1

INSPECTION ACTIVITIES

Five reports of Client Trust Fund Inspections were issued this reporting period. The inspections found that the grantees were in general compliance with LSC requirements but improvements in internal controls were needed.

CLIENT TRUST FUND INSPECTION REPORTS

Open at beginning of reporting period	0
Issued during reporting period	5
Closed during reporting period	5
Open at end of reporting period	0

LEGISLATIVE AND REGULATORY REVIEW

LEGAL REVIEW

The OIG reviewed and commented on statutory and regulatory provisions affecting LSC and/or the OIG.

SUBPOENA ENFORCEMENT ACTIVITIES

Two court cases arising out of the OIG's issuance of subpoenas remain pending. These cases arose out of the OIG's assessment of the accuracy of grantees' 1999 case statistical data.

In the first case, two grantees, citing ethical rules and attorney-client privilege, declined to provide data the OIG requested. The OIG subpoenaed the data and sought and obtained enforcement of the subpoenas in the U.S. District Court for the District of Columbia. The District Court's enforcement order did not preclude particularized showings of attorney-client privilege in individual cases. One grantee (Legal Services for New York City or LSNY) appealed the order and, on May 25, 2001, the U.S. Court of Appeals for the D.C. Circuit affirmed and remanded the case to the District Court. The District Court appointed a special master to hear particularized claims of attorney-client privilege, and that process is proceeding.

The second case was brought by subgrantees and an affiliated organization of LSNY and is pending in the U.S. District Court for the Southern District of New York.

A third case, which arose when the OIG sought enforcement of subpoenas issued to LSC's two Georgia grantees, was settled and the action was dismissed by the court.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending September 30, 2001**

	NUMBER REPORTS	QUESTIONED COSTS	UNSUPPORTE D COSTS
A. For which no management decision has been made by the commence-ment 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, 2001**

	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.