

# Office of Inspector General

LEGAL SERVICES CORPORATION

*Semiannual Report to the Congress*

*April 1, 1998 – September 30, 1998*

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

October 30, 1998

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

*This Semiannual Report on the activities of the Office of Inspector General of the Legal Services Corporation covers the six-month period from April 1, 1998 through September 30, 1998. 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.*

Edouard R. Quatrevaux  
Inspector General

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## EXECUTIVE SUMMARY

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An oversight report summarizing 205 grantee audit reports submitted by independent public accountants was issued. (Page 2)

An audit service review determined that compliance testing by the grantee's independent public accountant was inadequate. (Page 2)

A Peer Review found that the LSC OIG had an adequate quality control system and that the OIG had complied with *Government Auditing Standards*. (Page 3)

One prosecutive referral was made, and a conviction was obtained in a case previously referred. (Page 5)

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## **INTRODUCTION**

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### **Corporate Structure**

The Board of Directors of 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.

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## AUDITS

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Two audit reports were issued in this period. Five additional audits of grantee case statistical reporting accuracy were begun, as were eight audit service reviews. The Office of Inspector General (OIG) also was the subject of a Peer Review.

### **Summary Report on Independent Public Accountants' Reports**

The OIG issued an oversight report, "*Results of Recipient Audit Reports for the Year Ended December 31, 1997.*" This report summarized our review of 205 grantee audit reports submitted by the independent public accountants (IPAs) performing the audits. The IPAs reported 24 significant findings relating to 15 grantees. None of the findings were for noncompliance with prohibitions and restrictions on the provision of legal services. Most of the findings described internal control weaknesses or reported missing documentation.

### **Audit Service Review - Neighborhood Legal Services Program**

Audit service reviews (ASRs) aim to confirm the reliability of grantee audits and will become an integral part of our compliance oversight system. OIG auditors review the independent auditors' workpapers to ensure that grantee compliance with laws and regulations was adequately tested.

Our first ASR covered the audit of Neighborhood Legal Services Program, Washington DC. The firm Lucas, Tucker, P.C., performed the audit and reported that the grantee had complied with laws and regulations applicable to LSC grantees. However, our review of Lucas Tucker's workpapers disclosed that compliance testing was inadequate and that the audit report could not be relied on by LSC to assure the auditee's compliance. The audit firm agreed to perform additional work, and subsequently reported its successful completion. The OIG will review the auditor's work again in the next period.

## Peer Review

The Office of Inspector General of the Pension Benefit Guaranty Corporation conducted a Peer Review of the LSC OIG. Federal OIGs are required by *Government Auditing Standards* to have an external review performed every three years. The Executive Council on Integrity and Efficiency arranges the assignment of an OIG to perform the peer review.

The Peer Review covered the period October 1996 to September 1997, and determined that the Legal Services Corporation OIG had an adequate audit quality control system and had satisfactorily followed *Government Auditing Standards*.

<b><u>AUDIT REPORTS</u></b>		
Open at beginning of reporting period		6*
Issued during reporting period		4
Closed during reporting period		<3>
Open at the end of reporting period		7
<b><u>RECOMMENDATIONS TO LSC GRANTEES</u></b>		
Pending beginning of reporting period		14
Reported during this period		0
Closed during reporting period		<14>
Pending at end of reporting period		0
<b><u>RECOMMENDATIONS TO LSC MANAGEMENT</u></b>		
Pending beginning of reporting period		11
Reported during this period		3
Closed during reporting period	<1>	
Pending at end of reporting period		13



\*Corrects ending balance from prior reporting period.

## **Prior Period Recommendations**

There were eight open recommendations from prior reporting periods. They are as follows:

Summary Report on Audits of Selected Grantees for Compliance with Selected Regulations. One recommendation on timekeeping procedures remains open. A revision to the timekeeping regulation is under consideration by the Board of Directors.

Report on Inspection of Alternative Work Arrangements. Seven recommendations to improve LSC's alternative work arrangements program remain open. A new personnel manual is being drafted and is expected to address the recommendations.

## **Audit Reports Issued**

Results of Recipient Audit Reports for the Year Ended December 31, 1997

Review of Lucas Tucker Work Papers on the Audit of Neighborhood Legal Services Program's Compliance with Laws and Regulations

Management Advisory on Mid-Hudson Legal Services and LSC Real Estate Policy

Management Advisory on the Audit Service Review of the Compliance Audit of Neighborhood Legal Services Program

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## INVESTIGATIVE ACTIVITIES

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Twenty-four cases were opened and 15 cases were closed in this reporting period. The majority of the cases resulted from information on fraud and theft provided by grantee organizations in accordance with grant assurances. The remainder resulted from information obtained from other sources, including referrals from LSC management. The OIG Hotline was contacted 15 times.

Falsification of educational loan reimbursement documents by an employee of a grantee in Georgia was referred to the U.S. Attorney's Office for prosecution.

A former employee of a grantee in Connecticut plead guilty to misappropriation of approximately \$25,000 in grant funds, and was sentenced to two years' probation and ordered to make restitution.

**INVESTIGATIVE CASELOAD**

<i>Open at beginning of reporting period</i>	12
<i>Opened during reporting period</i>	24
<i>Closed during reporting period</i>	<15>
<i>Open at end of reporting period</i>	21

**INVESTIGATIONS OPENED**

<i>Relating to LSC</i>	7
<i>Relating to LSC Grantees</i>	17

**RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION**

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

**PROSECUTIVE ACTIVITIES**

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

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## LEGISLATIVE AND REGULATORY REVIEW

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The OIG continued its involvement in LSC's regulatory process in the current reporting period by providing LSC management with comments on all drafts of regulations. OIG suggestions were aimed at ensuring that the regulations implement the intent of Congress, provide clear guidance, and facilitate both compliance and the monitoring of compliance of LSC recipients. The OIG also provided comments on the interpretive guidance which LSC management provided to grantees.

Also in this reporting period, the OIG presented a proposed regulation which would satisfy a statutory requirement that the OIG develop rules of practice to implement its authority to debar, suspend and remove the auditors performing the annual financial statement audits of LSC grantees.

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## PROGRAM ASSESSMENT

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Work continued on a review of the role of client-eligibles in establishing local priorities for legal services grantees. The report will be issued in the next reporting period.

This review is the first in a research agenda set forth in the OIG Strategic Plan (1999-2004). Future reviews will deal with the effects of brief services on clients, the effectiveness of Private Attorney Involvement (PAI) in serving low-income clients, and the extent to which client goals are represented and client satisfaction with the services received.

**TABLE I**

**Audit Reports Issued with Questioned Costs  
for the Period Ending September 30, 1998**

	NUMBER	QUESTIONED	UNSUPPORTED
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	1	\$607,735	\$0
Subtotals (A + B)	1	\$607,735	\$0
<b>LESS:</b>			
C. For which a management decision was made during the reporting period:	1	\$607,735	\$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	1	\$607,735	\$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, 1998**

		<b>NUMBER REPORTS</b>	<b>DOLLAR VALUE</b>
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
<b>LESS:</b>			
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

<b>IG ACT*** REFERENCE</b>	<b>REPORTING REQUIREMENT</b>	<b>PAGE</b>
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	4
Section 5(a)(4)	Matters referred to prosecutive authorities	5
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	9, 10
Section 5(a)(7)	Summary of each particularly significant report	2,3,4
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	9
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	10
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.