

Office of Inspector General

**Semiannual Report to the Congress
October 1, 2002 – March 31, 2003**

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

April 30, 2003

**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 October 1, 2002 through March 31, 2003. Section 5 of the Inspector General Act of 1978 requires the Board of Directors, as the designated Federal entity head, to 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. Reports on two other audits are being drafted. Audit work continued on the Corporation's annual financial audit. (Page 2)

The OIG has undertaken a project to evaluate mapping technology as a legal services management tool. Mapping enables operational data to be presented on a map by geographic location. Our approach is a pilot project done in cooperation with LSC's two grantees in Georgia - Atlanta Legal Aid Society and Georgia Legal Services Program. The technical work of producing maps and evaluating their usefulness has been completed. An evaluation report is being drafted. (Page 6)

Two Client Trust Fund Inspection Reports were issued. (Page 9)

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

During this reporting period, the Office of Inspector General issued two Program Integrity audit reports. A contractor continued work on the Corporation's financial statement audit. The Audit Service Review (ASR) program continued, but no reports were issued.

PROGRAM INTEGRITY AUDITS

The OIG is reviewing grantees' operations to determine if they are complying with LSC requirements on relationships with entities that engage in prohibited activities established in 45 CFR Part 1610. This regulation requires grantees to maintain objective integrity from any organization that engages in activities prohibited by the LSC Act, LSC appropriations acts, and LSC regulations. To do so, grantees must be legally separate from such organizations, not transfer LSC funds to them, not subsidize any restricted activities with LSC funds, and maintain physical and financial separation from them. An exception applies for transfers of LSC funds solely for private attorney involvement (PAI) activities. These audits are termed Program Integrity audits.

During this reporting period, the OIG issued audit reports on Legal Aid Society of Middle Tennessee and the Cumberland and Legal Services of Northwest Ohio. Audit reports were being drafted on Legal Services of South Central Michigan and California Rural Legal Assistance where the on-site audit work was previously completed.

Legal Aid Society of Middle Tennessee and the Cumberland

The audit provided reasonable, but not absolute, assurance that the grantee complied with Part 1610 between January 1, 2001 and August 30, 2002, the period covered by our review. During this time period the grantee

was not involved with organizations that engaged in restricted activities and LSC funds were not transferred to other legal organizations.

Although we found no problems with the grantee's compliance with the program integrity standard, improvements were need in one area. The grantee did not have a formal process in place to determine whether part-time advocates needed to provide certifications concerning their outside activities. During the audit, the Executive Director established a process that will correct this problem.

Legal Services of Northwest Ohio

The audit provides reasonable, but not absolute, assurance that the grantee complied with Part 1610 between January 1, 2001 and September 30, 2002, the period covered by our review. The grantee was closely associated with an organization, Advocates for Basic Legal Equality (ABLE), that engaged in restricted activities but was physically and financially separate from that organization.

Although we found no violations of the program integrity regulation, the following problems needed to be addressed:

- The grantee's articles of incorporation stated that the grantee was organized for the benefit of ABLE;
- Applicants did not attest to their citizenship or eligible alien status at one office; and
- Two contracts with a private attorney had no expiration date.

Subsequent to our site visit, the grantee: 1) amended its articles of incorporation to eliminate the reference to the grantee as organized for the benefit of ABLE; 2) amended its PAI client intake application form to ensure clients attested to their citizenship or provided appropriate documentation of their alien eligibility; and 3) amended the attorney's open contracts to specify termination dates. Because the grantee had taken corrective action we made no recommendations.

CORPORATE AUDIT

Audit work continued on the Corporation’s Fiscal Year 2002 financial statement audit. The audit firm, M.D. Oppenheim and Co., completed most of the audit work during this reporting period. Financial statement reporting requirements changed for Fiscal Year 2002 and the Corporation was required to prepare a Management and Discussion Analysis for the first time. This is a narrative description of the Corporation’s activities and accomplishments for the year. The narrative was not completed by the end of the reporting period. Corporation management expects to complete the narrative in April and the audit should be completed during the next reporting period.

SUMMARY OF AUDIT ACTIVITY

AUDIT REPORTS

Open at beginning of reporting period	0
Issued during reporting period	2
Closed during reporting period	2
Open at end of reporting period	0

RECOMMENDATIONS TO LSC GRANTEEES

Pending at beginning of reporting period	0
Reported during this period	0
Closed during this reporting period	0
Pending at end of reporting period	0

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 REVIEWS

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 IPAs properly reviewed grantee's compliance with 14 restrictions and prohibitions imposed by Congress. The OIG is drafting reports on 12 ASRs.

EVALUATION PROJECT

The OIG has undertaken a project to evaluate mapping technology as a legal services management tool. Mapping enables operational data to be presented on a map by geographic location. For example, client addresses can be plotted to show where clients are concentrated within a grantee's service area. This helps grantee managers evaluate the appropriateness of office locations and resource deployments.

Our approach is a pilot project done in cooperation with LSC's two grantees in Georgia - Atlanta Legal Aid Society and Georgia Legal Services Program. This project is evaluating mapping technology for its utility in supporting a wide range of stakeholder interests, including:

- 1) Access to legal services for the needy through identification of income-eligible population, clients served, and the under-served;
- 2) Grantee management information to support resource acquisition and planning, and placement of office locations and staff;
- 3) Program planning and oversight by various LSC components; and,
- 4) Strategic information for the LSC Board of Directors.

The project's primary objective is to determine the usefulness of geographic information systems for operational and strategic planning at the local and national levels and for reporting of grantees' accomplishments. A wide range of maps will be produced including ones that show income-eligible population locations, client locations and shifts in location over time, areas of intense demand, and low demand. Our goal is to identify and prototype the maps and information that will be valuable to decision-makers at various levels in the legal services environment. A report will be prepared for grantees and

LSC management with maps and an analysis of how they can be used as a tool to improve services clients are provided.

The technical work of producing maps and evaluating their usefulness has been completed. An evaluation report is being drafted and will be issued next reporting period.

INVESTIGATIVE ACTIVITIES

No cases were opened during this reporting period and one was closed.

The OIG maintains a telephone Hotline for the reporting of improper activities by LSC grantees or Corporate staff. Sixty-five telephone calls and thirteen letters were received and resolved. Fourteen required follow-up for resolution. All telephone calls and letters were resolved without an investigation being initiated.

INVESTIGATIVE CASES

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

PROSECUTORIAL ACTIVITIES

Referred this period	0
Declined prior and this period	0
Pending	0
Convictions	0

INSPECTION ACTIVITIES

Three Client Trust Fund inspection reports were issued during this reporting period. The inspections found that the grantees were not in full compliance with LSC Accounting Guide requirements. Specific suggestions were made for correcting these deficiencies and improving internal controls. The grantees agreed to implement the suggestions and the inspections were closed.

CLIENT TRUST FUND INSPECTION REPORTS

Open at beginning of reporting period	0
Issued during reporting period	3
Closed during reporting period	3
Open at end of reporting period	0

REPORTS ISSUED

Kansas Legal Services (Topeka, KS)
Legal Assistance Foundation of Metropolitan Chicago
Philadelphia Legal Assistance Center

LEGISLATIVE AND REGULATORY REVIEW

LEGAL REVIEW

The OIG reviewed and commented on statutory and regulatory provisions affecting LSC and the OIG. Comments were provided on the proposed revisions to CFR 1604 (Outside Practice of Law) and CFR 1611 (Eligibility).

SUBPOENA ENFORCEMENT ACTIVITIES

Two court cases resulting from 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, Legal Aid Bureau of Maryland (LAB) and Legal Services of New York (LSNY), declined to provide data the OIG requested, citing ethical rules and attorney-client privilege. The OIG subpoenaed the data and sought and obtained enforcement of the subpoenas in the U.S. District Court for the District of Columbia. LAB provided the data but LSNY appealed the verdict. The court's order was affirmed on appeal and the case was remanded. The District Court appointed a special master to hear particularized claims of attorney-client privilege by LSNY and that process is on hold pending the outcome of a related case discussed below.

The second case was brought against LSC, OIG, and LSNY by subgrantees and an affiliated organization of LSNY in the U.S. District Court for the Southern District of New York. On August 7, 2002, the Court ruled in the defendant's favor on cross motions for summary judgment. The Court held that the subgrantees are required to provide the requested case data to LSNY for LSNY to provide to the OIG. Section 509(h) of LSC's 1996

appropriation act, as amended, requires disclosure, as do the grant assurances and subgrant contracts. The Court rejected the argument that 509(h) was unconstitutional and that the IG Act was unconstitutional. The plaintiffs appealed the decision.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 2003**

	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 March 31, 2003**

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