

Office of Inspector General

LEGAL SERVICES CORPORATION

Semiannual Report to the Congress

April 1, 1995 - September 30, 1995

October 30, 1995

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

This Semiannual Report (SAR) on the activities of the Office of Inspector General (OIG) of the Legal Services Corporation (LSC) covers the six-month period from April 1, 1995 through September 30, 1995. 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 SAR.

The work of the OIG staff is aimed at ensuring proper stewardship of federal funds, and assisting the Corporation in achieving the most effective delivery of legal aid to the poor. The continued support of the Board of Directors is essential to achieve the highest degree of institutional integrity and efficiency.

Edouard Quatrevaux
Inspector General

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EXECUTIVE SUMMARY

Implementation of the IG Act at LSC was completed, including the transfer of responsibility for grantee audits from program management to the Office of Inspector General. (Page 2)

An Inspection of Expense Payments to members of the LSC "transition team" found internal controls inadequate and made six recommendations for improvement. (Page 3)

An OIG developed Audit Guide for grantees was approved as a final rule by the LSC Board of Directors. A Compliance Supplement will be issued early in the next period. (Page 4)

One arrest was made for felony theft, two convictions were obtained in state courts, and Federal prosecutors declined prosecution on two referrals. (Page 6)

At the request of the Senate Committee on Human Resources and Labor, the OIG investigated an allegation of illegal activities by a grant recipient. The investigation found that the cited activities did not violate the LSC Act or the governing regulation. (Page 6)

The Inspector General provided testimony before the Subcommittee on Commercial and Administrative Law of the House Committee on the Judiciary, pertaining to the "Reauthorization of the Legal Services Corporation." (Page 9)

CORPORATION MANAGEMENT

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 323 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.

OFFICE OF INSPECTOR GENERAL

Certification of Independence

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

IG Act Implementation

Implementation of the IG Act at LSC was completed during this period.

Access to Information. In our last semiannual report, we noted difficulties in obtaining documents from LSC. We also reported that management and the OIG had agreed to resolve the issue with a management publication advising the LSC workforce of the OIG's statutory access right. The agreed to publication informing the LSC workforce of this access right was distributed shortly after the close of the current reporting period. It is to be made a permanent part of the LSC Personnel Manual.

Prohibition of Retaliation. We noted in our last semiannual report that management had orally agreed to implement section 7(c) of the IG Act by distributing an insert to the LSC Personnel Manual which would prohibit retaliation against employees for making complaints or providing information to the OIG. This was accomplished on June 29, 1995.

Responsibility for Grantee Audits. We reported last time that the Board would soon consider the issue of transferring to the OIG the responsibility for grantee audits including responsibility for the establishment of audit policy. The OIG had long argued that such a transfer was necessary in order to implement the IG Act and make procedures at LSC consistent with those throughout the Federal sector. The Board approved and implemented the transfer through a May 1995 resolution.

The new Audit Guide, which had been developed by the OIG during the last reporting period, was published for comment in June. It provides guidance for the independent public accountants who perform the annual audits of LSC grantees and, for the first time, requires that those audits be conducted in accordance with Office of Management and Budget Circular A-133. Circular A-133, implementing Government Auditing Standards, provides a higher level of assurance than general auditing standards that funds were used in compliance with laws and regulations. The Guide was subsequently accepted by the Board, and was published in the Federal Register as a final rule shortly after the close of the reporting period.

Major Projects

The OIG undertook a number of major projects during this period. In addition to the inspection of contract and related expenses of LSC management and transition team members described on page 4, the OIG devoted a great deal of staff time to planning for the potential mission of monitoring grantee compliance through contract audits as set forth in the 1996 Appropriation bill passed by the House (H.R. 2076). At the close of the period, it was unclear whether the contract audit provision of H.R. 2076 would become law. OIG staff also developed an Audit Guide for grantees, which includes a Compliance Supplement for financial-related requirements under the LSC Act and regulations. Additional time was spent in performing the function of review of grantee audit reports which was

transferred to the OIG in May. These projects consumed almost all OIG audit staff capacity, and required us to postpone Quality Assurance Reviews and other audit work.

PROGRAM INTEGRITY

AUDIT AND INSPECTION ACTIVITIES

Status of Findings and Recommendations

Three recommendations remain open from prior periods, all relating to the Revenue Audit Report issued in August 1994.

Contract Service and Related Expense Payments Inspection Report

The OIG performed an inspection of Contract Service and Related Expense Payments made from January 1, 1994 through March 30, 1995 to or on behalf of members of the LSC "transition team." The inspection determined that the internal control structure over temporary employees, contract employees, and independent contractors and related benefits and privileges was inadequate and/or ineffective. The Corporation extended benefits to some of the transition team not offered to other corporate employees or authorized in LSC policies, and in some cases the value of the benefits was not appropriately reported to the individual or to the Internal Revenue Service. The inspection resulted in six recommendations for corrective action.

Quality Assurance Reviews (QARs)

QARs are on-site reviews of the independent auditor's working papers supporting annual grantee audits. Their purpose is to ensure effective audits and thus provide reasonable assurance that material levels of fraud would be detected.

Two QAR reports were issued during this period documenting the results of the quality assurance reviews. In both cases, the audits met prescribed auditing standards.

State Boards of Accountancy reached decision in two cases involving OIG findings of substandard audits which had been referred to them in the Fall of 1994. In one, the California State Board of Accountancy ordered the partner in charge of the audit to undertake Continuing Professional Education and withheld final action until completed. In the other, the South Carolina State Board of Accountancy negotiated an agreement with the firm which agreed to hire an additional audit manager and institute an in-house training program.

Other Audit Activities

The Audit Guide, developed by the OIG, was approved as a final rule by the LSC Board of Directors shortly after the close of the reporting period and will become effective for audits of fiscal periods ending on December 31, 1995. We expect to distribute a Compliance Supplement, to be used by auditors in examining grantee compliance with financial-related requirements under the LSC Act and regulations, in the next reporting period.

**STATISTICAL SUMMARY OF AUDIT ACTIVITY
FOR THE PERIOD ENDING SEPTEMBER 30, 1995**

AUDIT REPORTS AND OTHER AUDIT-RELATED PROJECTS

Open at beginning of reporting period	7	
Opened during reporting period	7	
Closed during reporting period	<4>	Openatthe
end of the reporting period	10	

RECOMMENDATIONS

Pending beginning of reporting period	21
Reported during reporting period	6
Closed during reporting period	<18>
Recommendations pending as of September 30, 1995	9

QUALITY ASSURANCE REVIEWS (QARs)

Audits Acceptable (met standards)	2
Audits Referred for Disciplinary Action (substandard)	0
Reports Pending	0
QAR activity for the reporting period	2

Investigative Activities

During this period, 25 cases were opened and 19 were closed. The majority of the cases resulted from information on losses provided by recipients in accordance with grant assurances. The remaining cases were opened as a result of information obtained from other sources, including referrals from other LSC offices and calls or letters to the OIG Hotline. The Hotline was contacted 24 times and resulted in the opening of 3 cases.

One arrest was made for felony theft, two convictions were obtained in state court, and Federal prosecutors declined prosecution on two referrals. Two other cases remain under consideration by prosecutors.

Criminal Investigations

Arrests

An OIG investigation into the alleged theft of approximately \$25,000 of program funds by the former Executive Director of Central California Legal Services resulted in the arrest warrant being issued for violations of Title 18, Section 209. On May 3, 1995, the individual was arrested by the United States Marshals office in Denver and waived extradition to Fresno, California. On September 25, 1995, the United States Attorney's office dismissed the Federal charges and referred the matter to the District Attorney.

Convictions

A previously reported investigation into the embezzlement of \$7,000 from a grantee in Louisiana resulted in the former Executive Director pleading guilty to one count of theft in state court. The sentence was suspended, and he was placed on probation and ordered to pay a fine and restitution.

A previously reported investigation into the theft of \$900 from a grantee in Texas resulted in the former administrative secretary pleading guilty to one count of theft in state court. The individual was sentenced to six months in jail and placed on six months probation.

Other Investigations

In a letter to the Inspector General, the Chairman of the Senate Committee on Labor and Human Resources requested an investigation into an allegation made by a witness at a hearing before the Committee. The witness alleged that an LSC recipient engaged in an illegal practice of charging indigent clients to file Social Security Disability Insurance (Title II) claims and collecting fees and awards. The OIG reviewed the documentary evidence, the law and the facts surrounding the allegation and provided Senator Kassebaum with a July 1995 Inquiry Report detailing the results of that review. We found the allegation to be without merit and found that the recipient's practice of accepting statutory fees from client awards in Title II cases did not violate the LSC Act or the governing LSC regulation.

**STATISTICAL SUMMARY OF INVESTIGATIVE ACTIVITY
FOR THE PERIOD ENDING SEPTEMBER 30, 1995**

INVESTIGATIVE CASELOAD

Investigations Open as April 1, 1995		25
Investigations Opened this reporting period	19	
Investigations Closed this reporting period	<23>	
Total Investigations in progress of September 30, 1995	21	

CATEGORIES OF INVESTIGATIONS OPENED

Internal (Relating to LSC)		8
External (Relating to LSC Grantee)		11

RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION

Reported during this reporting period	0
Pending from previous period	0
Closed during this period	0

PROSECUTIVE ACTIVITIES

Referred for prosecution this reporting period	1	
Prosecution Declined		2

Pending Action
Convictions

2

2

LEGISLATIVE AND REGULATORY REVIEW

Legislative Review

The Inspector General provided a written statement and oral testimony at a July 27, 1995 hearing before the Subcommittee on Commercial and Administrative Law of the House Committee on the Judiciary. The hearing focused on the "Reorganization of the Legal Services Corporation."

The OIG reviewed a number of pieces of proposed legislation relating to LSC during this reporting period. We provided written comments to Congress on HR 2076, a 1996 LSC appropriation bill, and on an alternative to it proposed by Senator Domenici. We also provided written comments to Senator Kassebaum on S.1221, "The Legal Services Reform Act of 1995," a reauthorization bill.

Regulatory Review

During this period, the Corporation put aside its comprehensive review of its regulations in favor of developing new regulations to institute changes favored by both houses of Congress, including competition for LSC grants and timekeeping for LSC recipients. The OIG assisted in this process through written comments and, as in the past, continued to object to draft regulations which would implement LSC's interpretation of §1006(b)(3) of the LSC Act as an implied restriction on its access to its recipients' documents. This implied restriction would preclude the Corporation from seeking any of the vast amount of unprivileged information which may be protected under rules of the local bars, including the names of clients.

PROGRAM ASSESSMENT

Program Assessment

We continued our review of the "Potential For Improving Legal Services Delivery Capacity Through Technology." The review has identified proven technologies that could increase the current caseload several fold with relatively modest investments. The focus of these applications is on maximizing client self-help and increasing the capacity of intake and case management systems to improve productivity.

Field work has been completed, and management was briefed on our initial findings and the implications of information technologies on the legal services delivery system. Preparation of a report was discontinued due to the special projects described earlier, but we expect to issue this report in the next reporting period.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 1996**

	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, 1996**

	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	
Section 5(a)(1)	Significant problems, abuses, and deficiencies	
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	
Section 5(a)(4)	Matters referred to prosecutive authorities	
Section 5(a)(5)	Summary of instances where information was refused	
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	
Section 5(a)(7)	Summary of each particularly significant report	
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	
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	
Section 5(a)(11)	Significant revised management decisions	
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	

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

Program Assessment

In this period, the OIG opened a review titled "Potential for Improving Legal Services Delivery Capacity Through Technology." This action was based on the Chairman's assessment that "The main issue is how to provide meaningful access to justice when the needs far exceed resources," and our belief that significant increases in resources were and are unlikely.

Although our report will be not issued until the next period, we believe that order of magnitude increases in delivery capacity can be achieved at very modest cost. That is, we believe that LSC's current annual caseload of 1.6 million persons can be expanded to as many as 4-6 million with relatively minor investments in information technology. Our report will detail how these improvements to the legal services program can be achieved.