

**LEGAL SERVICES CORPORATION  
OFFICE OF INSPECTOR GENERAL**

**REVIEW OF GRANTEE'S  
USE OF NON-LSC FUNDS,  
TRANSFER OF LSC FUNDS, &  
PROGRAM INTEGRITY STANDARDS**

**Grantee:                      Legal Aid Society of Hawaii  
                                    Recipient No. 912000**

**Report No. AU01-003  
June 2001**

[www.oig.lsc.gov](http://www.oig.lsc.gov)

## TABLE OF CONTENTS

RESULTS OF AUDIT .....	1
RECOMMENDATIONS .....	2
SUMMARY OF GRANTEE'S COMMENTS ON DRAFT REPORT .....	3
BACKGROUND.....	4
OBJECTIVES, SCOPE, and METHODOLOGY.....	5
APPENDIX I - Listing of Finding and Associated Recommendations .....	I – 1
APPENDIX II - Grantee's Comments On Draft Report .....	II - 1
APPENDIX III - OIG Staff Responsible for the Audit and Report.....	III - 1

## **RESULTS OF AUDIT**

The Legal Services Corporation (LSC) Office of Inspector General (OIG) conducted this audit to determine whether Legal Aid Society of Hawaii (LASH) was in compliance with the requirements of 45 CFR Part 1610. Essentially, this regulation prohibits grantees from transferring LSC funds to an organization that engages in activities prohibited by or inconsistent with the LSC Act or applicable appropriations act (hereinafter "restricted activities"), with one exception. The only exception is that LSC funds may be used to fund private attorney involvement (PAI) activities that an organization or individual performs for the grantee. In these instances the prohibitions referred to in Part 1610 apply only to the LSC funds that were transferred to the organization performing within the PAI program. In addition, grantees must maintain objective integrity and independence from organizations that engage in restricted activities.

This audit provides reasonable, but not absolute, assurances that LASH complied with Part 1610 between July 1, 1999 and March 31, 2001, the period covered by our review. In terms of Part 1610, the grantee was not involved with any organizations that engaged in restricted activities. LSC funds were not improperly transferred to other organizations.

LASH used non-LSC funds to represent some clients that were not financially eligible under LSC guidelines. These cases involved clients that were serviced through co-payment plans, reduced fee arrangements, and a prepaid legal services plan. The grantee's systems and procedures adequately tracked the costs of these cases and ensured that LSC funds were not improperly used.

In addition, we reviewed the pleadings for several cases. The cases were proper and did not involve restricted and prohibited activities. However, we identified a relatively minor case reporting deficiency that is not directly related to program integrity.

### **Court Cases Not Reported To LSC**

LASH did not report to LSC all the cases it filed in court as required by 45 CFR Part 1644. For calendar year 2000, LASH reported that 23 cases were filed in the 1<sup>st</sup> Circuit Court of the State of Hawaii located in Honolulu. The OIG identified eight additional cases that were not reported.

Part 1644 of the regulations requires grantees to report to LSC and, on request, disclose to the public certain information regarding each case it filed in a court. This requirement applies to all filed cases including those not funded by LSC. The information, including the name of each party to the case and the cause of action, must be submitted to LSC in semiannual reports for the periods ended June 30<sup>th</sup> and

December 31<sup>st</sup> of each year. Grantees are required to adopt written policies and procedures to implement this regulation.

LASH has informal, unwritten procedures for meeting the reporting requirement. The attorneys who file the cases are responsible for providing the case information to the Deputy Director. Following review, the information is recorded on a Semiannual Case Disclosure form and reported to LSC.

These informal procedures were not followed for six of the eight unreported cases and the required information was not recorded on the Semiannual Case Disclosure form. Management stated that some cases might have been overlooked because multiple attorneys worked on the cases. In these instances, each attorney may have incorrectly thought that the other submitted information for the Case Disclosure form. Grantee management asserted that the other two cases were properly excluded from the report because they were not funded by LSC. However, Part 1644 requires grantees to report all cases filed by their attorneys, regardless of funding source. We noted that LASH reported other non-LSC funded cases in the Case Disclosure form.

LASH should adopt formal written policies and procedures to ensure that it complies with 45 CFR Part 1644. The procedures should establish a systematic process for the collection and reporting of case disclosure information. The Executive Director, or a designated management official, should review the Case Disclosure Report prior to its submission to LSC. In addition, LASH's full and part time attorneys should be reminded of the case disclosure requirements and their reporting responsibilities.

## **RECOMMENDATIONS**

We recommend that LASH management:

1. Develop and implement formal, written policies and procedures to implement the requirements of 45 CFR 1644.
2. Formally advise LASH attorneys of their responsibilities for reporting case disclosure information.

## **SUMMARY OF GRANTEE'S COMMENTS ON DRAFT REPORT**

The grantee agreed with the audit's findings and indicated that the OIG recommendations will be implemented. The grantee's comments are at

## Appendix II.

## **BACKGROUND**

LASH is a nonprofit corporation established to provide legal services to indigent individuals who meet eligibility guidelines. Its priorities include housing, family, public benefits and consumer issues. The grantee is headquartered in Honolulu, Hawaii and maintains eight branch offices throughout the state. It is staffed with 25 attorneys, 16 paralegals, and 21 other employees, who assist case handlers and provide administrative support services. LASH received total funding of over \$3.4 million during their most recent fiscal year, which ended June 30, 2000. LSC provided almost \$900,000 or about 26 percent of the total funds received by LASH during that year.

Grantees are prohibited from transferring LSC funds to another person or organization that engages in restricted activities except when the transfer is for funding PAI activities. In these instances the prohibitions apply only to the LSC funds that were transferred to the person or entity performing within the PAI program. See 45 CFR Part 1610. Grantees should also maintain objective integrity and independence from organizations that engage in restricted activities. This provision of Part 1610 applies to grantees that transfer, or use non-LSC resources, including funds, for the benefit of the other entity.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

This audit assessed whether LASH was in compliance with guidelines established in 45 CFR Part 1610 relating to the use of non-LSC funds, transfer of LSC funds, and program integrity standards.

Our review covered July 1, 1999 through March 31, 2001. The OIG began this audit work in February 2001 and visited LASH in Honolulu, Hawaii between April 2 and April 12, 2001. At LSC headquarters in Washington, DC, we reviewed materials pertaining to LASH including its Certification of Program Integrity, audited financial statements, grant proposal, and recipient profile. OIG staff discussed issues relating to LASH with LSC management officials.

During the on-site visit, the OIG interviewed and collected information from the Executive Director, Deputy Director, attorneys, paralegals, Comptroller, and other staff. We ascertained whether LASH employees were generally knowledgeable regarding the guidelines set forth in Part 1610. The audit included an assessment of LASH policies and procedures applicable to their use of non-LSC funds, transfer of LSC funds, and program integrity requirements.

We gained an understanding of the client intake process utilized by LASH. Pleadings from selected cases were reviewed to verify that the case activity was not a restrictive or prohibited activity.

The OIG reviewed the grantee's financial accounts for vendors including organizations, contractors, employees, and former employees. We determined that 57 accounts had financial activity during the period covered by this audit. The OIG identified 14 of these accounts as having inherent risk of non-compliance because of the identity of the vendor. Individual transactions relating to each of those 14 accounts were reviewed. We selected an additional 28 accounts for examination and reviewed transactions for each account. In total we reviewed 42 (14+28) of the 57 accounts that had financial activity during the period covered by this audit. The aggregate value of the transactions reviewed by the OIG was about \$121,000. Some accounts were reviewed in their entirety. Most accounts were judgmentally tested due to time constraints.

We assessed the process used by LASH to allocate direct and indirect costs to LSC and non-LSC funds. Policies and procedures relating to payroll and timekeeping were evaluated. Attorneys and paralegals at LASH were interviewed to determine their understanding as to which fund they should charge their time relative to case handling.

All agreements between LASH and other organizations and individuals were requested. We reviewed all materials provided including grants, funding instruments, leases, contracts, and co-counsel arrangements. The OIG identified the grantee's controls applicable to monitoring private attorneys under the PAI program.

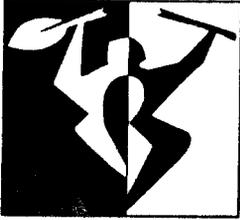
We performed this audit in accordance with *Government Auditing Standards* (1994 revision) established by the Comptroller General of the United States and under authority of the Inspector General Act of 1978, as amended and Public Law 105-277, incorporating by reference Public Law 104-134, §509(g).

**LISTING OF FINDING AND ASSOCIATED RECOMMENDATIONS**

- 1: Case Disclosure Forms did not report all cases filed (page 2).  
Recommendations #1, 2,

## APPENDIX II

Legal Aid Society



- of Hawaii -

Telephone: (808) 536-4302 • Fax: (808) 527-8088  
Mailing Address: P.O. Box 37375 • Honolulu, Hawaii 96837-0375  
924 Bethel Street • Honolulu, Hawaii 96813

T. Anthony Gill, Esq.  
President, Board of Directors

M. Victor Geminiani, Esq.  
Executive Director

June 8, 2001

Leonard Koczur, Acting Inspector General  
Office of the Inspector General  
Legal Services Corporation  
750 First Street, NE, 10<sup>th</sup> Floor  
Washington, DC 20002-4250

Dear Mr. Koczur:

This letter is to confirm our receipt of the most recent audit report performed by your office for the reporting period of July 1, 1999 to March 31, 2001. We are in agreement with the report submitted by your audit team.

Per your recommendations, with regard to court cases not reported to LSC in compliance with 45 CFR Part 1644, we will continue to remind staff of their responsibility for reporting case disclosure information. We are also currently implementing more stringent policies and systems to improve tracking of the cases in keeping with the requirements of 45 CFR 1644.

The board, staff and clients of LASH thank you very much.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "M. Victor Geminiani", is written over a horizontal line. The signature is fluid and cursive.

Lori Shimabukuro for  
M. Victor Geminiani

**OIG STAFF RESPONSIBLE FOR THE AUDIT AND THE REPORT**

Michael Griffith (Auditor-in-charge)

Anthony M. Ramirez

David Young

Abel Ortunio