

**LEGAL SERVICES CORPORATION**

**OFFICE OF INSPECTOR GENERAL**

**COMPLIANCE WITH SELECTED REGULATIONS  
PERFORMANCE AUDIT**

**Grantee: Pine Tree Legal Assistance, Inc.  
Recipient No. 120000**

**Final Audit Report No. AU96-063A**

**September 1997  
LEGAL SERVICES CORPORATION**

**OFFICE OF INSPECTOR GENERAL  
COMPLIANCE WITH SELECTED REGULATIONS  
PERFORMANCE AUDIT  
PROJECT NO. 96-063**

GRANTEE: Pine Tree Legal Assistance, Inc. (120000)  
Portland, Maine

## **INTRODUCTION**

In Public Law 104-134<sup>1</sup>, the 1996 appropriation for the Legal Services Corporation (LSC), Congress imposed restrictions and prohibitions on the types of services LSC grantees may provide to clients and on the methods they may employ in providing those services. The law, enacted on April 26, 1996, required the grantees to discontinue servicing certain types of cases immediately. It also required grantees to divest of three other types of cases (class actions, prisoner litigation, and alien representation) no later than July 31, 1996. Congress required LSC to report whether grantees had divested of these cases within the time allotted.

In order to provide the LSC Board of Directors, management, and Congress with an independent assessment of the grantees' compliance with the new law, the LSC Office of Inspector General (OIG) initiated two types of limited scope audits covering 12 grantees. A performance audit tested: (1) whether the grantees had divested of the prohibited cases and were providing only those legal services permitted in restricted cases; and (2) whether the selected grantees had implemented the policies and procedures to ensure that case-related activities were within the new law. A financial related audit was designed to determine whether selected grantees were supporting prohibited or restricted activities through the grantee or alternative organizations. Pine Tree Legal Assistance, Inc. (PTLA) was included in both the performance and the financial related audits. This report presents the results of the performance audit of PTLA.

## **BACKGROUND**

PTLA received \$1,024,318 in Fiscal Year 1996. PTLA's main office is located in Portland, Maine. There are five branch office locations and a pro-bono unit (Volunteer Lawyers Project). As of the date of field work, PTLA employed, in addition to the Executive Director, approximately 15 attorneys, 9 paralegals, and 10 other staff. In June 1996, PTLA reported 10 class action suits, 15 prisoner litigation suits, and 13 alien representation cases, a total of 38 cases to be divested by July 31, 1996.

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<sup>1</sup> 110 Stat. 1321 (1996)

## OBJECTIVES

The specific objectives of the performance audit were to determine whether PTLA had:

- divested of class action, prisoner litigation, and restricted alien cases by the July 31, 1996, deadline as required by section 508(b)(2) of Public Law 104-134;
- continued representation after April 26, 1996 with respect to the prohibited and/or restricted case services in violation of the law; and
- adopted new policies and procedures to conform with the new law, and communicated those policies and procedures to its staff.

## SCOPE

The audit was conducted at the main office in Portland, Maine and one branch office in Bangor, Maine from December 11-13, 1996. Audit procedures were limited to the following six regulations and the applicable interim rules in effect for 1996:

Part 1617	Class Actions
Part 1626	Alien Representation
Part 1633	Drug-related Evictions
Part 1637	Prisoner Litigation
Part 1639	Welfare Reform
Part 1636	Plaintiff Statements of Fact/Client Identity

Relevant to the stated objectives we reviewed cases and other matters existing prior and subsequent to April 26, 1996 through December 10, 1996. We did not review cases or other matters subsequent to the last date of fieldwork, except as it pertained to our follow-up of issues addressed in this report.

## METHODOLOGY

The OIG conducted the performance audit of PTLA in accordance with generally accepted government auditing standards. Audit procedures were limited to the following:

- conducting interviews with the Executive Director, managing attorneys and other case handlers to obtain an understanding of the policies, procedures and processes established to implement the regulatory requirements;
- examining documentation supporting management's assertion on its involvement in cases and other matters related to class actions, certain categories of aliens, and certain types of representation involving incarcerated persons;

- conducting a search for restricted cases that were not reported and not divested by July 31, 1996;
- examining a sample of case files opened prior to and after April 26, 1996 to ascertain whether there was continued involvement in restricted cases;
- determining whether the recipient established policies and procedures as required by the respective regulations and communicated those policies and procedures to its staff.

## **FINDINGS, RECOMMENDATIONS AND CONCLUSIONS**

With regard to the above-stated objectives, we provide the following findings.

### **CONCLUSION 1**

- We found no evidence that PTLA did not divest of class action, prisoner litigation, and restricted alien cases by the July 31, 1996, deadline as required by section 508(b)(2) of Public Law 104-134.

### **CONCLUSION 2**

- We found no evidence that PTLA continued representation after April 26, 1996 with respect to the prohibited and/or restricted case services in violation of the law. However, we found the following reportable conditions.

**FINDING 1** — PTLA did not determine the eligibility of one alien client.

In one alien representation case, PTLA did not document that the client was eligible pursuant to 45 C.F.R. 1626.5(b). In December 1996, PTLA attempted to determine eligibility through communications with the Immigration and Naturalization Service (INS) and the client. Because the attempts were unsuccessful, PTLA closed the case.

### **RECOMMENDATION**

None.

### **GRANTEE MANAGEMENT RESPONSE**

PTLA did not disagree. PTLA referred the case to another legal services program in July 1996, but kept the case open to confirm that the client received assistance from the other program. PTLA ultimately closed the case.

## OIG COMMENT

PTLA's response confirms that PTLA did not determine the client's eligibility under 45 C.F.R Section 1626.5(b).

**FINDING 2** — Citizenship attestation was not documented in some cases.

PTLA used a signed retainer agreement to comply with the citizenship attestation requirements under 45 C.F.R Section 1626.5(a). The retainer agreement included a box to indicate whether the client was a citizen. The clients signed these forms, thereby attesting to the information. Although signatures were obtained, the citizenship attestation box was blank in 8 of the 53 case files reviewed. Written procedures required this block of the form to be completed.

## RECOMMENDATION

None.

## GRANTEE MANAGEMENT RESPONSE

PTLA did not disagree. PTLA verified U.S. citizenship at the time of an initial conversation with a potential client. PTLA's intake sheet indicated that the client was a U.S. citizen, and a copy of the intake sheet was included in the case file. PTLA reminded staff of the importance of completing the citizenship attestation box on the retainer agreement.

## CONCLUSION 3

- PTLA established policies and procedures as required by the respective regulations and communicated those policies and procedures to its staff.

## GRANTEE MANAGEMENT COMMENTS TO THE DRAFT AUDIT REPORTS

PTLA's comments to each finding have been included in the discussion of that finding. The complete text of PTLA's responses to the first and second draft audit reports are included as Appendix I and II, respectively, except for Attachments A (first draft report) and D (contractor internal memorandum) to the second draft report, which are omitted.

## APPENDIX I

# PINE TREE LEGAL ASSISTANCE, INC.

<http://www.ptla.org>

88 Federal Street

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Portland, ME 04112-0547

(207)-774-4753 TDD 828-2308 FAX 828-2300

March 5, 1997

Albert B. Puglia  
Acting Assistant Inspector General  
for Program Integrity  
Office of Inspector General  
Legal Services Corporation  
750 1st St. NE 10th Floor  
Washington, D.C. 20002-4250

Nan Heald  
Executive Director

Elmer Miller  
Assistant Director

Dear Mr. Puglia:

I have reviewed the two draft reports covering the financial and performance audits conducted of Pine Tree Legal Assistance in December of 1996. The following are my comments with respect to these reports

## PTLA Financial Related Audit

The report finds that Pine Tree's system for tracking time on cases did not reconcile with payroll time and attendance records and recommends that Pine Tree use a single timekeeping system for both time distribution information and to support payroll. Pine Tree historically has used a simple written timesheet to record information for all staff for payroll purposes. Attorneys and paralegals began using a computerized program ("TimeSlips") in June of 1996 to comply with the new ISC regulation.

We do not disagree with the finding, although only a small percentage of advocates had discrepancies between the time reported on their weekly timesheets and the computerized information for the same period and their discrepancies were largely attributable to staff unfamiliarity with "TimeSlips" and the lack of support staff to enter written time-records in the computerized program.

Following the OIG audit in December, we discussed various approaches to this issue and have concluded that it is impractical to implement the recommendation as suggested, as almost one fourth of our staff are neither attorneys nor paralegals and therefore are not subject to the new timekeeping requirements. However, our attorney and paralegal staff have agreed to use their computerized data entries to construct the information posted on their weekly timesheets, avoiding any future discrepancies in the two reporting systems.

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Native American Units  
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Fax: 942-8323

Outreach Numbers  
Lewiston  
784-1158

Madison  
255-8616

Mr. Albert Puglia  
March 5, 1997  
Page 2

Performance Audit

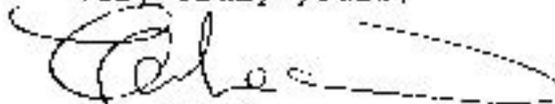
There were two findings related to management controls in connection with the performance audit. The first related to the status of one case opened by the Farmworker Unit in 1995 which had not been closed at the time of the OIG audit. The case had been referred to another legal service program in July of 1996 and had been kept open to verify that the client had been able to access assistance from the program. Information available in the file did not indicate whether the client could be served under the new regulations or not and the client did not maintain contact with Pine Tree after July of 1996. The case has now been closed as an S-1 for client failure to maintain contact.

The second finding relates to proof of citizenship attestation but confuses some aspects of the Pine Tree procedures to verify this information. All Pine Tree intake workers specifically inquire about citizenship status at the time of an initial conversation with a potential client, and the "intake sheet" contains a space where this information is identified. If Pine Tree then opens a case on the individual, the file contains a copy of the original intake and the individual is sent or given a client retainer agreement, which describes the relationship between the client and Pine Tree and which contains a box affirming the client's citizenship status, as well as the client's agreement to representation by Pine Tree. Copies of a blank intake sheet and client retainer agreement are enclosed to illustrate this point.

I assume that the "blank citizenship attestation box" refers to this space on the client retainer agreement, since the client does not sign the intake sheet. Many of these retainers are executed in court in connection with Pine Tree's representation of domestic violence victims. It is possible that both domestic violence clients and their attorneys have inadvertently overlooked the citizenship attestation box on the retainer where the intake sheet clearly indicates that the client is a U.S. citizen. However, as a result of the OIG audit, staff have been reminded of the importance of insuring that clients complete the citizenship attestation box on the retainer agreement.

I have no further comments on the draft report or its specific findings. If you need additional information from Pine Tree, I hope you will contact me directly.

Very truly yours,



Nan Heald  
Executive Director

# PINE TREE LEGAL ASSISTANCE, INC.

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August 18, 1997

Alexis M. Stowe  
Asst Inspector General for Audit  
Office of Inspector General  
Legal Services Corporation  
750 1st St. NE 10th Floor  
Washington, D.C. 20002-4250

Man Heald  
Executive Director

Minor Miller  
Assistant Director

Re: Grantee No. 120000 Pine Tree Legal Assistance  
Fiscal and Performance Audit, Dec. 11-13, 1996

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Native American Unity  
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942-0673  
Fax: 942-8323

Outreach Numbers  
Lewiston  
784-1558

Machias  
255-8666

Dear Ms. Stowe:

I appreciate the additional time provided by your office to respond to the second draft of the above-captioned audit reports, extending the deadline from August 14 to noon on August 19.

Pine Tree places the highest priority on its compliance with the changed fiscal and performance requirements facing LSC recipients as a result of P.L. 104-134 and the related LSC regulations and policy statements. We therefore welcomed the opportunity to evidence our compliance through a performance and fiscal audit of our program in December of 1996.

Our successful efforts to substantially comply with the new requirements were recognized by your Office both at the time of the exit interview by your audit team in December and again in the first draft reports of both the fiscal and performance audits. The first draft reports are enclosed as "Attachment A" to this letter.

We are therefore very concerned that the conclusion of "substantial compliance" is omitted in the most recent drafts of both reports. Moreover, in the fiscal report, this conclusion has been replaced with a statement that your Office is now unable to assess our program's compliance with the relevant laws and regulations. This change apparently is based on modifications I made to a management representation letter weeks before the first report was drafted. No evidence of noncompliance has been cited or suggested in the new draft reports.

The changes to the management representation letter were not made in order to obscure your Office's ability to assess compliance but rather to correct a grammatical problem and to reflect our understanding of the current

Alexis M. Stowe  
August 18, 1997  
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legal requirements facing our program. A copy of the letter explaining those changes is enclosed as "Attachment B." The relevant substantive changes were as follows:

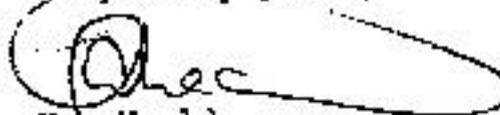
- to reflect that P.L.104-134 only restricted transfers of LSC funds to entities, persons or organizations that perform prohibited activities.
- to reflect that current law does not restrict attorneys who are part-time employees of a LSC-recipient in the cases or matters handled in their private practices.
- to clarify that LSC dues might have been used to pay bar association dues and other membership fees prior to enactment of P.L.104-134 but have not been so used since the effective date of the restrictions and prohibitions.
- to reflect that our obligations in this management representation letter were to provide information to your office focused on the objectives of the 1996 audit.

At the time I modified the management representation letter, I urged your office to notify me if my understanding of current law was inaccurate. I repeat that request in this letter: if I have misstated or misunderstood the LSC restrictions or prohibitions which were in effect for the period covered by the two audits, please let me know.

However, in the absence of legal authority warranting the broader affirmations sought in the original management representation letter, I urge you to reaffirm Pine Tree's substantial compliance with the current legal requirements facing LSC recipients as determined by both the fiscal and performance audit of our program in December of 1996.

A copy of my specific comments on the two draft reports is also enclosed as a seven page document entitled "Attachment C".

Very truly yours,



Nan Heald  
Executive Director

cc: John Tull, LSC Office of Program Operations  
William B. Devoe, Pine Tree Board President  
Robert Burgess, Board Treasurer

**PINE TREE LEGAL ASSISTANCE, INC.**<http://www.ptla.org>

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December 31, 1996

Reginald Brockington  
Office of Inspector General  
Legal Services Corporation  
750 1st NE 10th Floor  
Washington, D.C. 20002-4250

Nan Ewald  
Executive Director

Eleanor Miller  
Assistant Director

Dear Reggie:

I have enclosed the requested "management letter" in connection with the OIG audit conducted earlier this month.

I have made the following changes in the letter, since I was not comfortable signing the version you sent to us:

1. I modified the language of Item 3(c) to reflect my understanding of what was intended, since the sentence structure of your proposed version was incomplete.

2. I modified the language of Item 3(d) to reflect my understanding from the Corporation that Public Law 104-134 only restricts transfers of LSC funds to entities, persons or organizations that perform prohibited activities. If this is incorrect, please let me know.

3. I modified the language of Item 9 to reflect my understanding from the Corporation that part-time attorneys are not restricted in the cases or matters handled in their private practices. Again, if this is incorrect, please let me know.

4. I modified the language of Item 11 to make it less open-ended, since LSC funds were used to pay such dues prior to enactment of Public Law 104-134.

5. I also modified the language of Item 13 to make it less open-ended, since I assumed that your intent was to reflect our continuing obligation to provide information with

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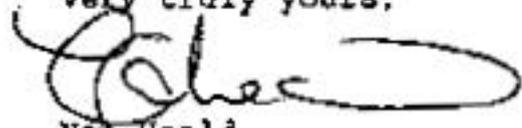
Machias  
255-8856

Reginald Brockington  
December 31, 1996  
Page 2

respect to calendar year 1996 compliance issues.

I hope that you will contact me directly if you have any questions regarding these changes to the management letter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Nan Heald", written in a cursive style.

Nan Heald  
Executive Director

Chronology of OIG Audit and General Comments

In the late fall of 1996, Pine Tree received notice from the Office of Inspector General that the program would be subject to:

a performance audit to assess compliance with the restrictions, prohibitions and requirements included in the LSC fiscal year 1996 appropriations, and a financial-related audit to confirm that prohibited cases are not supported with LSC funds.

Letter dated November 26, 1996 from Karen M. Voellm, Chief of Audits. [emphasis added]

An on-site team visited Pine Tree on December 11 - 13 and conducted an exit interview on December 13. During that exit interview, the team reviewed several management control matters with staff, but indicated that they had uncovered no evidence of noncompliance with the restrictions or prohibitions which were the focus of the two audits.

Following the on-site visit, Pine Tree was mailed a draft management representation letter for signature by the Executive Director. Because the draft letter contained one grammatical error and four statements which were either inconsistent with the scope of the audit or inconsistent with current law or regulation, the letter was modified before signing. It was mailed back to the Office of the Inspector General on December 31, 1996 with an explanation of the changes and the reasons for the changes.

In late February, Pine Tree received the first draft report of findings and conclusions from the two audits; that report did not address the management representation letter in any fashion. The draft report concluded that Pine Tree was in "substantial compliance" with the restrictions and prohibitions, as determined under both the performance and fiscal audit performed in December. Pine Tree subsequently submitted comments addressing the management control issues which identified in the first draft reports.

On August 7th, Pine Tree received faxed copies of new revised draft audit reports regarding the financial and performance audit of Pine Tree Legal Assistance, and commenting on the management representation letter mailed eight months earlier.

In the most recent drafts, some of the original objectives of the two audits have been rephrased, deleted or significantly

changed<sup>1</sup>. Pine Tree is concerned by the apparent decision to change the objectives of this audit months after its occurrence, and after issuance of its first draft report. The change to the first objective in the fiscal audit is particularly troubling, as it appears to be inconsistent with the requirements and prohibitions which were the alleged motivation for this audit in the first place.

Under both revised audits, the conclusion of "substantial compliance" has been withdrawn, even though the second draft of the performance audit does retain findings of:

no evidence that PTLA did not divest of class action, prisoner litigation, and restricted alien cases by the July 31, 1996 deadline as required by section 508(b)(2) of Public Law 104-134. . . [and] no evidence that PTLA continued representation after April 26, 1996 with respect to the prohibited and/or restricted case services in violation of the law.

In the fiscal audit, the draft report now states that the Office of Inspector General is now unable to determine whether Pine Tree has complied with the relevant restrictions and prohibitions and therefore expresses no opinion on the stated objectives of the audit. The revisions made to the proposed management representation letter, received weeks before the first report was issued, are cited as the only authority for this changed outcome. The new fiscal report also contains a finding which, while allegedly "immaterial," was not even discussed by the auditors while on site in December or mentioned in the earlier draft report.

Pine Tree Legal Assistance has taken great care to comply with the requirements imposed by Congress and the Corporation. The evidence in this audit clearly demonstrates that the OIG on-site team found Pine Tree to be in substantial compliance with those requirements, while needing to assert stronger management controls in certain limited instances. Even in the second draft reports of both the fiscal and performance audits, no evidence is cited of

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<sup>1</sup> The original draft of the performance audit listed four objectives; only three remain in the second draft. Phrasing of the objectives in the performance audit has been altered as well, although the substance of those objectives remains basically the same. The original draft of the fiscal audit listed three objectives and three remain in the second draft. However, the first objective originally was characterized as a determination as to whether PTLA had used LSC funds to pay other legal organizations to handle prohibited or restricted cases; in the second draft, the reference to LSC funds has been deleted. The second and third objectives are phrased in the same manner in both drafts.

noncompliance with those restrictions.

Instead, it appears that a policy decision is being made to modify the objectives of the original audits after the fact and to develop new conclusions to accompany those changed objectives. In neither case does the new draft language have any bearing on the actual audit conducted at Pine Tree in December of 1996.

#### Specific Comments on the Performance Audit Draft Report

The original draft of the performance audit clearly concluded that Pine Tree demonstrated "substantial compliance with all tested regulations." This conclusion is absent in the second draft, although there is no language suggesting that the Office is unable to determine compliance with the tested regulations.

The original draft report contained four objectives for the performance audit. One of the four ("properly reporting class action, prisoner litigation and restricted alien cases to LSC, as required by LSC in its letter to grantees dated May 8, 1996") has been deleted without explanation in the new draft.

The first draft of the performance audit found that:

PTLA had prepared policy statements which comply with the new law and regulations, presented the policy statements to its Board of Directors for adoption, issued memoranda to staff describing the new law and regulations, and held staff meetings to ensure staff understanding with the new law and regulations.

This finding has been omitted in its entirety in the second draft, for no apparent reason. It directly addresses the third objective in the rephrased list of objectives for the performance audit. Since there has been no suggestion that this earlier finding was inaccurate, I assume its omission was unintentional and that it will be included in the final report.

In the original draft report, the audit also used a chart which indicated the auditor's conclusion of "no indication of noncompliance" with respect to all six of the tested regulations: §1617 Class Actions, §1626 Alien Representation, §1633 Drug-related Evictions, §1637 Prisoner Litigation, §1639 Welfare Reform Litigation, and §1636 Plaintiff Statements of Fact. This conclusion has also been omitted from the final report. Since there has been no suggestion that the earlier conclusion was inaccurate, I assume its omission was unintentional and that it will be included in the final report.

Finally, the new draft report recharacterizes two issues as "reportable conditions" which had been previously described as "management controls." The auditor's description of both issues is

essentially unchanged, however, and our earlier program comments still remain appropriate.

#### Financial-Related Draft Audit Report

The original draft of the financial-audit report concluded that:

PTLA demonstrated substantial compliance with the requirements related to the prohibitions and restrictions on the use of LSC and non-LSC funds. The audit revealed no evidence to indicate that PTLA supported prohibited or restricted activities, either directly or through alternative entities.

In the new draft of the financial audit report, the author suggests that Pine Tree modifications to a draft management representation letter made weeks before the first draft report now make it impossible to determine compliance with any of the three stated objectives of the fiscal audit.

The OIG audit team comprehensively reviewed Pine Tree's financial systems and records during their visit to Maine. The team expressed no dissatisfaction with Pine Tree staff cooperation with their examination effort during their on-site examination nor in any subsequent communication with Pine Tree staff. In March, that team concluded that Pine Tree was in substantial compliance with the relevant prohibitions and restrictions. No evidence of noncompliance has been cited in the new draft of the fiscal audit. Pine Tree therefore strongly disagrees that the OIG now lacks information sufficient to determine compliance with any of the original<sup>2</sup> objectives of this financial audit.

The following comments address each of the specific objectives identified in the fiscal audit. Regarding the first objective, your Office now concludes that,

...we could not determine that PTLA did not use funds to pay other organizations to handle prohibited or restricted cases and we express no opinion on this objective.

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<sup>2</sup> I note that the first objective for the fiscal audit, as stated in the original audit notification letter, during the on-site visit, and reiterated in the March draft report was to determine whether "PTLA used LSC funds to pay other legal organizations to handle prohibited or restricted cases." The reference to LSC funds has now been deleted in the objective contained in the second draft report. This change appears to be a significant restructuring of the focus of the 1996 audit, eight months after the fact.

As noted earlier, this re-phrased objective is beyond the scope of the original audit. Pine Tree urges the OIG to address its findings and conclusions to the scope of the original audit, which clearly was limited to the use of LSC funds to support prohibited or restricted activities, and in which our compliance with the regulations was clearly documented.

The second objective addressed the issue of whether current employees, terminated employees or consultants worked on restricted or prohibited cases and received LSC funds for their services after the restrictions and prohibitions took effect. In the earlier draft of this report, the OIG concluded that Pine Tree was in "substantial compliance" with this objective. The second draft report indicates that your Office could not determine compliance and now expresses no opinion on this audit objective.

Regarding this issue, the signed management representation letter clearly indicates that no LSC funds were used to support work on restricted or prohibited cases after the restrictions and prohibitions took effect. In addition to the review performed during the on-site visit, this representation by me would appear to solidly address the second objective of the audit.

However, I was made aware in a recent phone conversation with Reginald Brockington of your Office that there was concern with a change to the original management representation letter regarding the status of PTLA part-time employees. The OIG had originally requested that Pine Tree sign a representation affirming that "No part-time PTLA employees perform LSC-prohibited activities while working at PTLA or **while employed elsewhere.**" [emphasis added]. Pine Tree deleted the statement in bold, since Pine Tree lacked any basis for making a management representation to that effect.

Consistent with P.L.104-134, the LSC Act, and current LSC regulations and policies, Pine Tree does not regulate the activities of its part-time employees outside of Pine Tree. Moreover, there is nothing in P.L.104-134, the LSC Act, or current LSC regulations and policies which addresses the activities of part-time employees when they are not working at Pine Tree or supported by Pine Tree funds. Indeed, Mr. Brockington was unable to cite any specific authority for the type of control which was contemplated in the original draft representation regarding part-time employees. In the absence of that authority, it is unclear why the change made by Pine Tree now makes it impossible to determine Pine Tree's compliance with current LSC prohibitions or restrictions.

The new draft report takes a similar position with respect to the third stated objective of the fiscal audit, whether time and attendance records indicated continued involvement in restricted or prohibited cases after PTLA ceased official involvement with the cases. Again, it cites changes to the management representation

letter as the primary authority for its inability to determine whether PTLA employees continued to work on prohibited cases.

This changed conclusion seems directly contradictory with the following signed assertions in the management representation letter:

There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure to LSC.

There are no material transactions that have not been properly recorded in PTLA's accounting records, timekeeping records or case management files.

No full-time PTLA employees perform LSC-prohibited activities during or outside PTLA's regular working hours.

No part-time PTLA employees performed LSC-prohibited activities while working at PTLA.

It also is squarely contradicted by the documentary evidence reviewed by the OIG on-site audit team, which included the closing documentation for every single prohibited or restricted case in which PTLA staff have been previously involved, indicating Pine Tree's withdrawal from those matters prior to the effective date of the prohibitions or restrictions.

The second draft report also suggests that the minor discrepancies between the timekeeping system used by Pine Tree for payroll purposes and the system used to comply with the requirements of 45 CFR §1635 preclude a determination of compliance under current law. However, there is no LSC requirement that the timekeeping system utilized for purposes of §1635 be consistent with that used for payroll purposes. Moreover, despite those minor discrepancies, the earlier draft report concluded that Pine Tree was in substantial compliance with this objective.

Again, the second draft report cites no evidence of noncompliance regarding the third objective. It is worth noting that, to the contrary, the OIG audit team searched all of Pine Tree's timekeeping records using the client names involved in the cases from which Pine Tree withdrew. The team discovered no instance in which Pine Tree staff worked on those cases after the effective date of the restrictions or prohibitions.

Finally, the most recent audit report contains a separate management letter regarding an immaterial finding about contract reimbursement. The finding concerns a June 12, 1996 contract between Pine Tree and consultant Lawrence Reichard and suggests that actual reimbursement improperly exceeded the contract limit of \$5,100 for services rendered and related travel expenses. This

finding is incorrect and should be withdrawn.

Pine Tree's fiscal staff do not recall discussing this issue with the audit team during the on-site visit in December. Our records indicate that on September 6, 1996, the Administrative Office ["Central"] provided oral authorization for the original contract amount to be increased by a maximum of \$750. As your finding notes, Mr. Reichard received a total of \$5,609.13, an amount below the amended contract level of \$5,850. A copy of the contemporaneous Farmworker Unit notes reflecting that discussion and Administrative Office approval for the increase is enclosed as "Attachment D."