

# Office of Inspector General

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October 29, 1999

**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 April 1, 1999 through September 30, 1999. 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.*

E. R. Quatrevaux  
Inspector General

# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b><i>ii</i></b>
<b>INTRODUCTION .....</b>	<b>1</b>
Corporate Structure .....	1
Grant-Making Activities.....	1
Certification of Independence .....	1
<b>AUDITS.....</b>	<b>2</b>
Review of Case Statistical Reports.....	2
Audit Service Review Reports .....	3
Audit Service Review Reports Issued.....	4
Prior Period Recommendations .....	5
Case Statistical Audit Reports Issued.....	5
<b>INVESTIGATIVE ACTIVITIES .....</b>	<b>7</b>
<b>LEGISLATIVE AND REGULATORY REVIEW.....</b>	<b>9</b>
Statutory Recommendation .....	9
Congressional Hearing .....	9
TABLE 1 Reports Issued with Questioned Costs.....	11
for the Period Ending September 30, 1999	
TABLE II Audit Reports Issued with Funds to be Put to Better Use .....	12
for the Period Ending September 30, 1999	
TABLE III Index to Reporting Requirements	
of the Inspector General.....	13

## ***EXECUTIVE SUMMARY***

Seven audit reports of grantee Case Statistical Reports were issued. The audits continued to find inaccuracies in the caseload information reported to LSC. (Page 2)

One of the grantees audited denied OIG auditors access to information, asserting attorney-client privilege. The OIG disagreed that the information sought was privileged. Several other grantees have since refused to provide documents to LSC management. Shortly after the close of the reporting period, the Inspector General and the LSC President submitted a joint legislative proposal that would provide the access needed to hold grantees accountable for their use of federal funds. (Pages 2 and 9)

The Inspector General testified at a hearing of the House Judiciary Subcommittee on Commercial and Administrative Law on the results of the audits of Case Statistical Reports. He also demonstrated that allegations to the effect that the OIG purposefully withheld audit information from Congress were false. (Page 9)

Fifty reports of Audit Service Reviews were issued. Five reviews found some deficiencies in the compliance checking by the independent public accountants who conduct the annual audits of LSC grantees. The remaining 45 reviews found that the auditors adequately tested grantees' compliance with laws and regulations. (Page 3)

The former Executive Director of an LSC grantee in California was disbarred from the practice of law as a result of an OIG investigation initiated in 1993, and based on a subsequent complaint filed by the OIG. (Page 7)

Five Client Trust Fund Inspection reports were issued. One inspection found that the grantee did not comply with applicable LSC guidance. (Page 7)

Two thefts by employees of LSC grantees were referred for prosecution. (Page 7)

# ***INTRODUCTION***

## ***Corporate Structure***

The Board of Directors of LSC ("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 OIG issued seven audit reports on the accuracy of grantee Case Statistical Reports. Three reports covered grantees' 1997 case statistical data and four covered 1998 data. The OIG also completed 60 Audit Service Reviews and issued 50 reports by the end of the reporting period.

### **Review of Case Statistical Reports**

Final audit reports on 1997 case statistical data were issued for: Gulf Coast Legal Foundation (Houston, TX), Prairie State Legal Services (Rockford IL), and Legal Action of Wisconsin. The reported closed cases for Gulf Coast were overstated by 2,015 cases (23 percent). The single largest problem was that 677 cases that were several years old were reported closed in 1997 even though all legal services were provided prior to 1997. An estimated 1,338 cases should not have been reported because they were not supported by case documentation, no legal services were provided, were duplicates of previously reported cases, or clients' income exceeded LSC guidelines. The closed case error rate for the two other grantees was about six percent. The errors for these two grantees occurred because: no legal services were provided for some reported cases; cases were not closed in the year legal services ceased; over income clients were provided service, and cases were reported more than once.

Final audit reports on 1998 case statistical data were issued for: Monroe County (New York) Legal Assistance Corporation, Philadelphia Legal Assistance Center, Legal Aid Bureau (Maryland), and Legal Services of Eastern Missouri. The reviews found that the four grantees overstated closed cases by almost 13,000, and that closed case error rates ranged from 24 to 43 percent. Over 5,400 cases were reported as closed in 1998 even though all legal services had been completed in prior years. Legal services were not provided in almost 2,200 cases. In addition, applicants who were rejected when applying for assistance were reported as cases, as were numerous duplicate cases. One grantee, Legal Services of Eastern Missouri, reported over 2,200 cases even though the clients' names were not recorded. A documented client name is a prerequisite for reporting a case.

One grantee, Legal Aid Bureau (Maryland), denied the OIG auditors access to needed information. Asserting attorney-client privilege, the grantee refused to provide any nonpublic information to verify the type of legal services provided. As a result, the OIG was unable to determine if legal services were provided to the clients. The provision of legal services is a prerequisite to reporting a case.

The audits found fewer errors in the number of open cases reported, which are those open on the last day of the year. The accuracy of the open cases in grantee case management systems is important because an accurate database is essential to effective case management. However, open cases are not a reliable indicator of caseload because the vast majority of these cases will be reported as closed in the next year's tally. The seven audited grantees all overstated the number of open cases.

The OIG also conducted two additional 1998 case statistical audits in this period and issued draft reports. The final reports for these audits will be issued in the next reporting period.

### ***Audit Service Review Reports***

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 independent public accountants properly reviewed grantees' compliance with 14 restrictions and prohibitions imposed by Congress.

The OIG issued 50 ASR reports during the period. Five ASRs found deficiencies in the IPAs' testing procedures. The OIG required the IPAs to perform additional work to correct the deficiencies. The other 45 ASRs found that the IPAs adequately tested grantees' compliance with LSC regulations and that the audit reports provided reasonable assurance that grantees complied with LSC regulations.

## ***Audit Service Review Reports Issued***

Legal Aid of New River Valley, Inc. (VA)	Legal Services of North Florida, Inc. (FL)
North Mississippi Rural Legal Services (MS)	Western Kentucky Legal Services (KY)
Kisatchie Legal Services Corporation (LA)	Legal Aid Society of Dayton, Inc. (OH)
Legal Aid Foundation of Long Beach (CA)	Legal Action of Wisconsin (WI)
Meramec Area Legal Aid Corporation (MO)	Susquehanna Legal Services (PA)
Laurel Legal Services (PA)	Central Pennsylvania Legal Services (PA)
Bucks County Legal Services (PA)	Legal Aid of Western Missouri (MO)
Legal Services of Northern Michigan (MI)	Carolina Regional Legal Services (SC)
Palmetto Legal Services (SC)	Southeast Missouri Legal Services (MO)
Legal Aid Society of Albuquerque (NM)	Ocean-Monmouth Legal Services (NJ)
Legal Services of NE Wisconsin (WI)	Capital Area Legal Services Corp.(LA)
Pinal & Gila Counties Legal Aid Society (AZ)	Northwest Louisiana Legal Services (LA)
East Arkansas Legal Services (AR)	New Center for Legal Advocacy (MA)
Wooster-Wayne Legal Asst. Society (OH)	Neighborhood Legal Services (NY)
Legal Services of Central New York (NY)	Channel Counties Legal Services Assoc. (CA)
Gulf Coast Legal Services (Houston, TX)	Legal Services of Greater Miami, Inc. (FL)
Legal Aid Society of Mid New York (NY)	West Texas Legal Services (TX)
Utah Legal Services (UT)	Community Legal Services (CA)
Legal Aid Society (NE)	Montgomery County Legal Aid Society (PA)
Memphis Area Legal Services (TN)	Greater Bakersfield Legal Assistance (CA)
Southern Tier Legal Services (NY)	Bergen County Legal Services (NJ)
Passaic County Legal Services (NJ)	Appalachian Research & Defense Fund (WV)
Legal Aid of Central Texas (TX)	Pikes Peak Legal Services (CO)
Legal Services of Upper East Tennessee (TN)	Oregon Legal Services (OR)
Statewide Legal Services of Connecticut (CT)	Chemung County Neighborhood Legal Services (NY)

### **Prior Period Recommendations**

There are nine open recommendations to LSC management 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 finalized and is expected to address the recommendations.

Legal Aid Bureau, Incorporated (Maryland) (Recipient No. 321016) - **Compliance with Selected Regulations Performance Audit.** One recommendation that LSC management should review the applicability of the regulation on alien eligibility to children in long-term foster care remains open. The Office of General Counsel is reviewing the regulation to determine if changes are needed.

### **Case Statistical Audit Reports Issued**

***Prairie State Legal Services (Rockford, IL) (514076)***  
***Gulf Coast Legal Foundation (Houston, TX) (744060)***

***Legal Action of Wisconsin (550041)***

***Legal Aid Bureau, Inc. (Maryland) (321016)***

***Monroe County (New York) Legal Assistance Corporation (233130)***

***Philadelphia Legal Assistance Center (339000)***

***Legal Services of Eastern Missouri (526020)***

**AUDIT REPORTS**

Open at beginning of reporting period	6
Issued during reporting period	7
Closed during reporting period	0
Open at end of reporting period	13

**AUDIT SERVICE REVIEW REPORTS**

Open at beginning of reporting period	0
Issued during reporting period	50
Closed during reporting period	45
Pending at end of reporting period	5

**RECOMMENDATIONS TO LSC GRANTEES**

Pending at beginning of reporting period	18
Reported during this period	50
Closed during reporting period	14
Pending at end of reporting period	54

**RECOMMENDATIONS TO LSC MANAGEMENT**

Pending at beginning of reporting period	10
Reported during this period	0
Closed during reporting period	1
Pending at end of reporting period	9

## ***INVESTIGATIVE ACTIVITIES***

Seventeen cases were opened and 20 cases closed in this reporting period. The OIG Hotline was contacted ten times.

A misappropriation of approximately \$30,000 in grantee funds and the solicitation of fees from clients for legal services that should have been free of charge by a former executive director of a grantee in California was referred to the U.S. Attorney, Eastern District of California. The former executive director was indicted and arrested but the Federal charges were later dismissed and the matter was referred to the District Attorney Office for state prosecution. In January 1996, the District Attorney's office decided not to pursue criminal prosecution due to statute of limitation concerns. In March 1996, the OIG referred the matter to the Office of Disciplinary Counsel of the Colorado Supreme Court, the state in which the former director was admitted to the bar. On June 17, 1999, the former director was disbarred from the practice of law.

A misappropriation of about \$12,000 in grantee funds by an employee of a grantee in South Carolina was referred to the U.S. Attorney's Office for prosecution.

A misappropriation of approximately \$40,000 in grantee funds by former employees of a grantee in Nevada was referred to the U.S. Attorney's Office for prosecution.

Five reports of Client Trust Fund Inspections were issued. The inspections found that four grantees were in general compliance with LSC requirements, and that one grantee was not in compliance. Other matters arising from the inspections were referred to LSC management as potential compliance issues.

**INVESTIGATIVE CASELOAD**

<i>Open at beginning of reporting period</i>	24
<i>Opened during reporting period</i>	17
<i>Closed during reporting period</i>	20
<i>Open at end of reporting period</i>	21

**INVESTIGATIONS OPENED**

<i>Relating to LSC</i>	5
<i>Relating to LSC Grantees</i>	12

**RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION**

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

**PROSECUTIVE ACTIVITIES**

<i>Referred for prosecution this reporting period</i>	2
<i>Prosecution (declined from prior period referral)</i>	0
<i>Pending Action</i>	1
<i>Convictions</i>	0

## **LEGISLATIVE AND REGULATORY REVIEW**

### ***Statutory Recommendation***

Under current law, neither the OIG nor LSC management may gain access to materials properly subject to the attorney-client privilege. Although it has been the OIG's position that it does not require access to materials properly subject to attorney-client privilege, recent events have convinced the OIG and LSC management that without such access, it is impossible to ensure that grantees comply with statutory and regulatory restrictions and prohibitions on the legal assistance provided.

An LSC grantee denied the OIG access to information necessary to complete an audit of case statistical reporting. Improperly making a blanket assertion of attorney-client privilege, the grantee refused to provide any non-public information to verify the type of legal services provided to clients. This is not the first time that the OIG has encountered access problems. LSC management also has encountered access problems and recently has been denied access by three grantees. Last, although independent public accountants are within the attorney-client privilege and thus should have unfettered access to grantee documents, the OIG's audit service reviews have revealed some restrictions on such access.

It is essential that auditors and monitors gain access to needed information. The denial of access is a continuing problem for the OIG, LSC management and the independent public accountants performing the annual audits of LSC grantees. The Inspector General and LSC President have submitted a joint legislative proposal that would provide the access needed to hold grantees accountable for their use of federal funds, while protecting client information from further disclosure.

### ***Congressional Hearing***

On September 29, 1999, the House Judiciary Subcommittee on Commercial and Administrative Law held a hearing on LSC grantee case statistical reports. The hearing was held in the wake of various news articles concerning OIG audits of grantee case statistical information and the publication of a paper by a well known institution suggesting that the OIG failed to report the results of its audits as required by the IG Act. The paper implied that this alleged failure was a deliberate attempt to affect the appropriation under consideration in summer 1998.

The Inspector General testified, providing the subcommittee with the facts regarding the audits and the OIG's reporting to Congress. The Inspector General's testimony dispelled any notion that the OIG failed in its statutory duties and clearly established that the OIG acted responsibly and appropriately in the conduct and reporting of these audits.

### ***Regulatory Activities***

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

The OIG presented to the LSC Board of Directors a final regulation which would satisfy the 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. The OIG plans to issue the final regulation in the next reporting period.

**TABLE I**

**Audit Reports Issued with Questioned Costs  
for the Period Ending September 30, 1999**

	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
<b>LESS:</b>			
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 September 30, 1999***

	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
<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**

IG ACT*** REFERENCE	REPORTING REQUIREMENT	PAGE
Section 4(a)(2)	Review of legislation and regulations	8
Section 5(a)(1)	Significant problems, abuses, and deficiencies	2
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	8
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	5
Section 5(a)(4)	Matters referred to prosecutive authorities	7
Section 5(a)(5)	Summary of instances where information was refused	2
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	5
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	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.