

# LEGAL SERVICES CORPORATION



## Office of Inspector General

Semiannual Report to the Congress  
April 1, 2023 – September 30, 2023

OFFICE OF INSPECTOR GENERAL  
**LSC** | America's Partner  
for Equal Justice  
LEGAL SERVICES CORPORATION

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

A MESSAGE FROM THE INSPECTOR GENERAL

I am honored to have been selected by the Legal Services Corporation (LSC) Board of Directors to serve as LSC's Inspector General. I began my service on April 25, 2023, during this reporting period. I am also honored to lead our dedicated and talented staff in performing oversight work that helps LSC and its grantees achieve their goals and objectives, comply with statutory and regulatory requirements, and prevent fraud, waste, and abuse. On my watch, our office will always be committed to ensuring that we provide independent, objective, and fact-based insights that help safeguard LSC funds and facilitate effective management. In addition to our watchdog role, we will also highlight opportunities for LSC and its grantees to improve program operations, implement leading practices, and stay ahead of the curve in addressing emerging challenges or risks.

I am pleased to submit this report on the activities and accomplishments of LSC's Office of Inspector General (OIG) for the period April 1, 2023, through September 30, 2023. During this reporting period, the OIG produced high-impact audits, investigations, and other proactive oversight engagements that fostered transparency and integrity in the expenditure of LSC funds. Highlights of the OIG's accomplishments during the reporting period include:

- In our commitment to continuous improvement, we completed a significant effort to update the *LSC OIG Audit Guide for Recipients and Auditors (Audit Guide)* and its appendices, replacing the *Audit Guide* issued in 1996. We conducted six training sessions to ensure that grantees and their Independent Public Accountants (IPA) understand the changes we made in the new guide. Approximately 345 people attended the training sessions.
- We continued to prioritize helping grantees ensure proactive and effective management of information technology (IT) resources, including mitigating cyber security risks. As part of our ongoing IT vulnerability assessment program, we issued three reports that described the findings and recommendations of assessments conducted from August 2022 through May 2023. We conducted a virtual presentation on related best practices, and 103 individuals attended it.
- We continued to have a positive impact on grantees' programs and operations. To that end, during this period we closed 18 audit

recommendations that spurred improvements in areas such as general ledger and financial controls, credit card usage, fixed asset inventories, financial disbursements, client trust fund reconciliations, internal reporting and budgeting, and employee benefits.

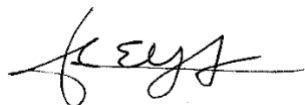
- We carried out our core oversight responsibilities by ensuring rigor in the annual audit of the LSC's financial statements and internal control and compliance testing. The auditors, who are under contract to the OIG, issued a "clean opinion" on the financial statements.
- We carried out our essential responsibility to review grantees' financial statement audit reports. We reviewed 107 financial statement audits of LSC grant recipients issued by IPAs, referring 57 significant findings to LSC management for corrective action. These critical audits promote transparency and integrity in the use of federal funds and are required under federal appropriations law.
- We continued executing the OIG's comprehensive audit quality control program, completing 20 reviews of the firms that conduct financial statement audits of grant recipients. All firms conducting these audits are subject to review at least once every four years. These reviews are intended to help IPAs conduct rigorous and efficient grantee audits.
- OIG investigative activities promoted integrity and ethical use of U.S. taxpayer dollars. This included obtaining one recovery totaling \$29,700 of improper student loan reimbursements made to an Executive Director of an LSC grantee as part of the grantee's Student Loan Assistance Plan.
- We opened 21 and closed 14 investigative cases involving a variety of criminal and regulatory matters, such as misuse of government funds, conflicts of interest, and impermissible outside practice of law.
- We promoted proactive oversight of pandemic-funded programming. During this period, we completed two special assessments focused on grants issued with Coronavirus Aid, Relief, and Economic Security (CARES) Act funding.
- We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. For example, we conducted Regulatory Vulnerability Assessments and Fraud Vulnerability Assessments at two grantees during this period. In addition, through fraud advisories and presentations, we kept grantees well-informed

about current risks to their programs, and provided practical information on how to prevent, detect, or respond to such threats. This period, we issued three Fraud Advisories: on fraud schemes committed against senior citizens, business email compromise (BEC) and payroll fraud schemes, and cyber incident response plans.

- In response to the high incidence of ransomware, email scams, and other cyberattacks, we maintain a dedicated OIG webpage with links to cybersecurity resources for grantees. We also presented two Cybercrimes Awareness Briefings during the period and provided a live virtual briefing on BEC trends against grantees. A recorded Cybercrimes Awareness Briefing is available on the OIG Cyber Security Resources webpage.

I look forward to continuing to work with LSC's Board of Directors, LSC leadership and staff, congressional stakeholders, and grantees in support of our common commitment to advancing the principle of equal access to justice for low-income Americans while promoting program integrity, transparency, and accountability for results. Finally, we take seriously our responsibility to keep the LSC Board of Directors and Congress currently and fully informed—and will continue to proactively offer our insights and seek feedback on our plans and priorities.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Yatsco', with a long horizontal flourish extending to the right.

Thomas E. Yatsco  
Inspector General  
October 31, 2023

# TABLE OF CONTENTS

OFFICE OF INSPECTOR GENERAL OVERVIEW.....	1
AUDITS.....	2
FY2022 LSC Corporate Financial Statement Audit.....	2
Grantee Computer Networks Information Technology Vulnerability Assessments .....	3
LSC OIG Audit Guide and Appendices Update.....	3
Statistical Summary .....	5
Oversight of IPA Audits.....	6
Independent Audits of Grantees.....	6
Desk Reviews of IPA Reports.....	6
Quality Control Reviews.....	6
Follow-up Process .....	7
Review of Grantees’ Annual Audit Reports: IPA Audit Findings .....	7
INVESTIGATIONS.....	9
Recovery Actions .....	9
Recovery of Improper Student Loan Reimbursements.....	9
Fraud Prevention Initiatives.....	10
Live Presentation on Business Email Compromise Fraud Schemes .....	10
Fraud Awareness Briefings.....	10
Fraud Vulnerability Assessments.....	11
Regulatory Vulnerability Assessments .....	12
Cyber Security Resources Webpage.....	12
Fraud Advisories .....	13
Hotline.....	14
Statistical Summary .....	15
OTHER OIG ACTIVITIES .....	16
Legislative, Regulatory, and Policy Reviews .....	16
Freedom of Information Act .....	17
Professional Activities and Assistance.....	17

APPENDIX – PEER REVIEWS .....	18
TABLE I .....	19
TABLE II .....	24
TABLE III .....	25
TABLE IV .....	26
TABLE V .....	27

# OFFICE OF INSPECTOR GENERAL OVERVIEW

As required by the Inspector General Act,<sup>1</sup> the LSC OIG is fully committed to advancing two principal oversight missions: (1) to promote economy and efficiency in the activities and operations of LSC and its grantees; and (2) to prevent and detect fraud, waste, and abuse.

To achieve our oversight missions, we perform audits, evaluations, and reviews, and conduct criminal, administrative, and regulatory compliance investigations. Our independent and objective fact-finding activities enable us to develop recommendations for LSC and its grantees, as well as for Congress, for actions that will correct problems, better safeguard the integrity of funds, identify risks, and in the end increase the economy, efficiency, and effectiveness of LSC and its grantees' programs. When we substantiate allegations of fraud, we also work with the appropriate authorities to hold perpetrators accountable.

The OIG is headed by an Inspector General (IG), who reports to and is under the general supervision of the LSC Board of Directors. The IG has broad authority to manage the organization, including setting OIG priorities, directing OIG activities, and hiring OIG personnel and contractors.

To ensure objectivity, the IG Act grants the LSC IG independent authority to determine what audits, investigations, and other reviews are performed, to gain access to all necessary documents and information, and to report OIG findings and recommendations to LSC management, the Board of Directors, and directly to Congress.

The IG reports serious problems to the LSC Board of Directors and must also work with the appropriate law enforcement authorities when, through audit, investigation, or otherwise, the IG finds that there are reasonable grounds to believe that a crime has occurred. The IG is required by law to keep Congress fully and currently informed of the activities of the office through semiannual reports and other means.

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<sup>1</sup> Inspector General Act of 1978, as amended, 5 USC §§401-424.

## AUDITS

During this reporting period, the OIG issued four reports intended to ensure LSC's continued fiscal efficiency and raise grantees' awareness of IT system vulnerabilities. This period we issued a year-end financial statement audit of LSC, two reports as part of our vulnerability assessment program for grantees' IT networks,<sup>2</sup> and a special report summarizing findings and recommendations from several grantee IT vulnerability assessments.<sup>3</sup> Summaries of the reports are provided below. Additionally, the OIG completed a comprehensive revision to the *LSC OIG Audit Guide for Recipients and Auditors (Audit Guide)* and its appendices and published an updated version. At the conclusion of the period, we had six projects underway.

The OIG has responsibility for overseeing the audits performed annually at each grantee by independent public accountants (IPAs). During the reporting period, we reviewed 107 IPA reports, with fiscal year ending dates ranging from December 31, 2021, through January 31, 2023.

We issued 20 Quality Control Review (QCR) reports this period. The goals of the QCR initiative are to improve the overall quality of the IPA audits and to ensure that all audits are conducted in accordance with applicable standards and the guidance provided by the OIG.

### FY2022 LSC Corporate Financial Statement Audit

An independent public accounting firm, under contract with and subject to general oversight by the OIG, conducted LSC's FY 2022 financial statement audit. LSC received an unqualified opinion on the audit. The OIG reviewed the work of the public accounting firm and did not find any instances of noncompliance with generally accepted government auditing standards.

The Independent Auditor's Report on Internal Control over Financial Reporting reported that the results of their tests disclosed no deficiencies in internal control that would be considered material weaknesses.

The Independent Auditor's Report on Compliance and Other Matters reported that the results of their tests disclosed no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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<sup>2</sup> The grantee IT vulnerability assessment reports were issued only to the grantees due to the sensitive information contained therein.

<sup>3</sup> The special report summarizing findings and recommendations from several grantee IT vulnerability assessments was only issued to the grantees due to the sensitive nature of the information contained therein. A summary of the recommendations from the summary report were posted on the OIG website after the closure of the period.



## Grantee Computer Networks Information Technology Vulnerability Assessments

In 2016, we started a program to conduct Information Technology Vulnerability Assessments of grantees' computer networks. We engaged a specialized contractor to perform the assessments. During this SAR period we issued two grantee assessment reports. Each grantee received a report that included detailed findings and recommendations to remediate vulnerabilities.<sup>4</sup> The assessments tested for potential vulnerabilities in the system architecture, software, and processes from within and outside of the grantee networks.

In September, we transmitted a special report to all grantee executive directors and their respective board chairs as well as the LSC Board of Directors and LSC management. The special report provides a summary of the findings and recommendations from the most recent round of assessments. The ten assessed grantees varied widely in their IT security postures. The special report also identified common security issues and provided best practices to mitigate those vulnerabilities. The special report was intended to provide insight into common problem areas that may affect LSC grantees and to identify ways to strengthen grantees' network security. We presented the findings and associated best practices from the special report to stakeholders, and 103 individuals attended the virtual presentation. We are pleased at grantees' positive responses to this program.

## LSC OIG Audit Guide and Appendices Update

Since 1996, LSC's annual appropriations acts have required each recipient of LSC funding to be audited annually by an IPA in accordance with Government Auditing Standards and OIG guidance. Essential OIG guidance can be found in the LSC OIG *Audit Guide*. For the first time since the *Audit Guide* was issued in 1996, the OIG updated the *Audit Guide* in its entirety. As part of this effort, we also updated the *Audit Guide's* Appendix A: *Compliance Supplement for Audits of LSC Recipients (Compliance Supplement)*, last updated in 2016. The updates are effective for audits of LSC grantee fiscal years ending on or after September 30, 2023, and will help ensure that LSC grantees and the IPA community have the most up-to-date guidance.

The *Audit Guide* incorporates most requirements of the federal government's grants regulations, 2 C.F.R. 200, the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The most significant change to the *Audit Guide* is eliminating the requirement that all LSC grantees be subject to a high-risk classification. Rather, consistent with the Uniform Guidance, IPAs must assess whether the grantee under audit is high or low risk. Regardless of classification, LSC funding must be considered a major program and must receive a full audit annually as required by LSC's annual appropriations acts.

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<sup>4</sup> Due to the sensitive information contained in the reports they were issued only to the grantees, and not posted to the OIG website.

Since 1996 much has changed in government audit guidance and audit standards. For example, Uniform Guidance replaced some Office of Management and Budget Circulars. The updates to the *Audit Guide* and *Compliance Supplement* reflect these changes. Updates to the *Compliance Supplement* include additions and revisions to LSC Regulations since its last publication in 2016. The *Compliance Supplement* also includes a revised format for test work guidance, to clarify what compliance testing IPAs must perform and why.

As part of the update, the *Audit Guide* and its appendices were posted to the Federal Register for a 60-day comment period. We carefully considered all comments and updated the *Audit Guide* and its appendices accordingly. In May 2023 we disseminated the new *Audit Guide* to LSC grantees' IPAs, executive directors, and board chairs. The updated documents are also available on the OIG Website and must be used for audits of recipient fiscal years ending on or after September 30, 2023.

The OIG, in conjunction with the contractor assisting with the project, provided six training sessions to introduce recipients and their IPAs to the changes. Approximately 345 people attended the training sessions.

## Statistical Summary

### Audits

Open at beginning of the reporting period .....	4
Opened during the reporting period.....	3
Audit reports issued or closed during the reporting period .....	1
Open at end of the reporting period .....	6

### Recommendations to LSC Grantees

Pending at beginning of the reporting period.....	39
Issued during the reporting period .....	0
Closed during the reporting period.....	18
Pending at end of the reporting period.....	21

### Recommendations to LSC Management

Pending at beginning of the reporting period.....	3
Issued during the reporting period .....	0
Closed during the reporting period.....	0
Pending at end of the reporting period.....	3

## Oversight of IPA Audits

### Independent Audits of Grantees

Since 1996, LSC's annual appropriations acts have required that each person or entity receiving financial assistance from LSC be subject to an annual audit by an IPA. Each grantee contracts directly with an IPA to conduct the required audit in accordance with generally accepted government auditing standards and the *LSC OIG Audit Guide*.

The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA audit process. Our oversight activities, detailed below, include desk reviews and a quality control program with independent reviews.

### Desk Reviews of IPA Reports

The OIG conducts desk reviews of IPA reports issued to grantees to identify potential problems or concerns that may warrant follow-up via audit, investigation, or other review. The results of our desk reviews, discussed below in the Review of Grantees' Annual Audit Reports section, are used as part of our risk assessment and planning processes and shared with LSC management. We also review recommendations to determine whether the grantees' actions were responsive and appropriate. This period, the OIG conducted 107 desk reviews.

### Quality Control Reviews

Under our Quality Control Review (QCR) program, IPA firms performing grantee audits are subject to review to determine whether their work is being conducted in accordance with applicable standards and with the instructions issued by our office. The reviews are conducted by a certified public accounting (CPA) firm under contract with the OIG. The contractor also identifies issues that may require further attention or additional audit work by the IPA under review.

During this reporting period, we conducted 20 QCRs of LSC grantees' audited financial statements.

The QCRs found that six of the financial statement audits met standards with no exceptions. Fourteen of the audits met standards with one or more exceptions, ten of which required the IPAs to perform additional work and provide documentation to support their conclusions. Five of the IPAs provided the additional work and documentation which we evaluated and accepted. One IPA provided additional work that is still under evaluation by the OIG. The additional

work performed by the other four IPAs is not yet due to the OIG. For the other four financial statement audits that met standards with one or more exceptions, we issued recommendations to the IPAs to implement in future audits of grantees.

During previous reporting periods, we found that six financial statement audits contained deficiencies and required additional work from the IPAs. We issued notices to the IPAs requiring them to perform corrective action and to provide additional information to address the deficiencies. During this reporting period, we received additional work from the IPAs and found the work corrected the noted deficiencies. All six QCRs are considered closed.

### Follow-up Process

LSC's annual appropriation acts have specifically required that LSC follow-up on significant findings identified by the IPAs, which are reported to LSC's management by the OIG. Unless the deadline is extended, IPA audit reports are submitted to the OIG within 120 days of the close of each grantee's fiscal year. As noted above, through our desk review process the OIG reviews each report and refers appropriate findings and recommendations to LSC management for follow-up. LSC management is responsible for ensuring that grantees submit appropriate corrective action plans for all material findings, recommendations, and questioned costs identified by the IPAs and referred by the OIG to LSC management.

After corrective action has been taken by a grantee, LSC management notifies the OIG and requests that the finding(s) be closed. The OIG reviews LSC management's request and decides independently whether it will agree to close the finding(s).

### Review of Grantees' Annual Audit Reports: IPA Audit Findings

The following is a summary of significant findings, and the status of follow-up on such findings, reported by the IPAs as part of the grantee oversight process. The audit reports and the findings reflect the work of the IPAs, not the OIG.

During this reporting period, the OIG reviewed a total of 107 IPA audits of grantees with fiscal year ending dates from December 31, 2021, through January 31, 2023. These audit reports contained 135 findings. The OIG reviewed the findings and determined that 79 were not significant, or that corrective action had already been completed. The remaining 56 findings were referred to LSC management during the period for follow-up.

Additionally, the OIG referred one finding to LSC management for follow-up from a report initially reviewed during the prior reporting period and reissued as a result of a QCR during this period, for a total of 57 findings referred this period to LSC management for follow-up.

The following table presents information on the findings outlined in this section.

Summary of Findings Reported in Grantee Financial Statement Audits with  
Fiscal Years Ending December 31, 2021, through December 31, 2022

<u>Category</u>	<u>Number of Findings</u>
Financial Transactions and Reporting .....	31
Missing Documentation .....	8
Policies and Procedures/Other.....	15
Timekeeping.....	2
Segregation of Duties .....	1
TOTAL .....	57

## INVESTIGATIONS

The OIG opened 21 cases during the period. These included 16 investigative cases, one Regulatory Vulnerability Assessment, three Fraud Vulnerability Assessments, and one questioned cost case. The investigative cases included allegations of theft, conflicts of interest, contract and procurement fraud, time and attendance fraud, misuse of government funds, impermissible outside practice of law, and other potential violations of LSC statutory and regulatory requirements.

The OIG closed 14 cases during the reporting period. These included eight investigative cases, two Regulatory Vulnerability Assessments, and four Fraud Vulnerability Assessments.

During this reporting period, OIG investigative activity included obtaining one recovery totaling \$29,700, issuing three fraud advisories, and providing a live cybersecurity awareness presentation.

### Recovery Actions

#### Recovery of Improper Student Loan Reimbursements

An OIG investigation found that an Executive Director of an LSC grantee improperly received student loan reimbursement benefits from the grantee. The Executive Director requested student loan reimbursement assistance as part of the grantee's Student Loan Assistance Plan.

The grantee paid the Executive Director a total of \$29,700, or \$600 per month for approximately 50 months. The purpose of the grantee student loan assistance plan is to assist an associate in paying up to 60 percent of their monthly loan repayment obligations, up to a maximum of \$350 per month. The Executive Director participated in this plan and was reimbursed for payments she allegedly made on her student loan. The OIG investigation determined that neither the grantee nor the Executive Director could provide supporting documentation to substantiate that the Executive Director had been making monthly student loan payments to justify these reimbursements.

As a result of the OIG's investigation, the Executive Director repaid the grantee \$29,700 in reimbursements improperly received from the grantee as part of the Student Loan Assistance Plan.

## Fraud Prevention Initiatives

The OIG maintains an active fraud prevention program, engaging in a variety of outreach and educational efforts intended to help protect LSC and its grantees from fraud and abuse. We regularly conduct Fraud Awareness Briefings (FABs), Fraud Vulnerability Assessments (FVAs), and Regulatory Vulnerability Assessments (RVAs). We also issue fraud advisories via email and post the advisories on our webpage to help increase grantees' awareness of developing trends that may pose a risk to their operations and to LSC funds.

### Live Presentation on Business Email Compromise Fraud Schemes

During this reporting period, the OIG provided a live presentation via Zoom to grantee staff on Business Email Compromise (BEC) fraud schemes. We held the presentation in conjunction with our issuance of a Fraud Advisory. The live presentation explained BEC schemes, the business processes targeted by BEC schemes, the tactics used by cybercriminals to compromise staff emails, and best practices to prevent and detect BEC schemes. In addition, at the presentation, we discussed case examples of BEC cyberattacks at LSC grantees.

Approximately 244 people, representing 87 LSC grantees, attended the virtual presentation. The OIG also disseminated a recording of the presentation to grantees and posted it to the OIG Cyber Security Resources webpage: [Cyber Security Resources | OFFICE OF INSPECTOR GENERAL \(lsc.gov\)](#).

### Fraud Awareness Briefings

FABs are presented by experienced OIG investigative staff and cover a variety of topics, such as: who commits fraud; what conditions create an environment conducive to fraud; how can fraud be prevented or detected; and what to do if fraud is suspected.

While employees at LSC-funded programs may generally be aware that fraud and abuse can occur at any organization, they may not be aware of the potential for such incidents occurring within their own programs. FABs highlight the unfortunate truth that a number of LSC-funded programs have been victimized by frauds, including recent cyber fraud attacks, that have resulted in significant losses.

FABs describe common types of fraud, with particular focus on the various schemes that have been perpetrated against LSC grantees and the conditions that helped facilitate the losses. The briefings aim to foster a dialogue with staff and to engender suggestions for ways to help protect their own programs from fraud and abuse.



Since initiating the FAB program in 2009, we have conducted 176 in-person or remote briefings for grantees and subgrantees in all 50 states, the District of Columbia, and five territories, as well as briefings for the LSC Board of Directors and LSC headquarters personnel, a presentation at a National Legal Aid and Defender Association annual conference, and nine webinars that reached multiple grantees.

A recorded FAB is also posted on the OIG website, allowing interested audiences to view the recording at their convenience. During this reporting period, the OIG used the recorded FAB during two remote FVA and RVA visits. We encourage all grantee employees to view the recorded FAB and hope they find it a useful tool to help in preventing and detecting fraud.

### Cybercrimes Awareness Briefing

We recorded a Cybercrimes Awareness Briefing and posted it on the OIG website. The presentation focuses on the various types of cybercrimes that have targeted LSC and its grantees since 2018. The briefing also provides grantees with best practices for preventing and detecting similar cyberattacks and suggestions for responding to cyberattacks. We encouraged grantee management to share the briefing with their employees as part of a cybercrime training and prevention initiative.

During this reporting period, we provided two remote Cybercrimes Awareness Briefings to two grantees.

### Fraud Vulnerability Assessments

FVAs include a focused document review in areas considered high risk or prone to abuse. We also review the grantee's internal control policies and the degree of grantee compliance in practice. Finally, we conduct a personal briefing for the executive director and principal financial officer on fraud detection and prevention measures appropriate to their particular program.

A typical FVA can include reviews of credit card transactions, petty cash accounts, bank account reconciliations, travel claims, office supply expenses, and other selected areas that have been linked to the commission of fraud at grantee programs. FVAs can help grantees identify both existing vulnerabilities and potential problem areas. FVAs sometimes detect ongoing fraud or abuse, which may result in further investigation. FVAs also serve as a deterrent by alerting grantee staff members of the potential for fraud and reminding them that the OIG will investigate and seek to prosecute cases involving fraud or misuse of LSC grant funds.

Four FVAs were closed during this reporting period. These included two of our typical FVAs and two specially focused fraud assessments, CARES Act Assessments, described below.

### CARES Act Funds

In 2020, LSC distributed \$49.5 million of federal CARES Act funds to grantees for preventing, preparing, and responding to the coronavirus. LSC provided the CARES Act funds to grantees through COVID-19 Response Grants and Telework Capacity Building Grants.

During this reporting period, the OIG continued to conduct assessments on the use of CARES Act funds by grantees. The assessments are conducted to determine whether a grantee's policies and procedures are being properly implemented and ensure these funds are being used in compliance with the terms and conditions of the grants, as well as with LSC regulations.

We closed two CARES Act funds assessments during this reporting period. The two reviews did not identify any issues of non-compliance.

### Regulatory Vulnerability Assessments

We began conducting RVAs based on our experience investigating financial frauds in which grantees were victimized. We often found that noncompliance or laxity with respect to certain regulatory and other requirements contributed to an environment that increased the potential for fraud. RVAs seek to determine whether the grantee is following applicable provisions of the LSC Act, LSC regulations, grant assurances, provisions of the Financial Guide, and the case documentation and reporting requirements of LSC's Case Service Report Handbook. We have found that by focusing our reviews on certain key areas, we are able to assist grantees in identifying regulatory compliance issues that could also lead to broader potential financial vulnerabilities.

We closed two RVAs during this reporting period.

### Cyber Security Resources Webpage

In response to the increase in cyber threats targeting LSC grantee programs, the OIG continues to provide information on its Cyber Security Resources webpage. The webpage includes links to resources produced by the OIG that inform grantees of pending cyber threats. These resources aim to assist grantees in preventing, detecting, and reporting cyber threats to mitigate potential harm to their programs. The webpage can be found through the Cyber Security Resource button that appears on every page of the OIG website.

## Fraud Advisories

### Fraud Schemes Committed Against Senior Citizens

This reporting period, we posted a fraud advisory titled, “How to Identify and Prevent Financial Fraud Schemes Committed Against Senior Citizens.”

In this article, we provided grantees with information and resources related to a growing trend of financial fraud against the senior citizen population. The article provided information on how to identify and prevent 15 different types of fraud schemes which target senior citizens, such as power of attorney abuse, extortion, romance scams, and technical support scams. The article also identified additional resources aimed at increasing awareness of senior citizen financial fraud and how to report the fraud to the proper authorities.

### Business Email Compromise and Payroll Fraud Schemes

This reporting period, we posted a fraud advisory titled, “Protecting Your Organization Against Business Email Compromise and Payroll Fraud Schemes.”

In this advisory, we notified grantees of two recent Business Email Compromise (BEC) frauds perpetrated against LSC grantees involving direct deposit payroll schemes. The advisory provided grantees with updates on types of BEC schemes and emerging BEC threats. The advisory also identified best practices for preventing and detecting BEC schemes, including requiring employee education and awareness, implementing strong financial controls, strengthening email security, and implementing firewall configuration and software patches.

### Cyber Incident Response Plans

This reporting period, we issued a fraud advisory titled, “Grantees Should Consider Establishing Cyber Incident Response Plans.”

In this advisory, we notified grantees that a comprehensive Cyber Incident Response Plan (CIRP) can help grantees mitigate the impact of security breaches, protect sensitive data, and prevent potential losses. The advisory also highlighted guidance from LSC related to a CIRP, provided detailed steps on how to create a CIRP, and offered additional resources from the Cybersecurity and Infrastructure Security Agency (CISA) and the Federal Trade Commission (FTC) on establishing a CIRP. The steps for developing a CIRP included conducting a thorough assessment of grantees’ digital infrastructure and assembling a cyber incident response team.

## Hotline

The OIG maintains a Hotline for reporting illegal or improper activities involving LSC or its grantees. Information may be provided by telephone, fax, email, or regular mail. Upon request, a person's identity will be kept confidential. Reports may also be made anonymously. [Contact the OIG Hotline | OFFICE OF INSPECTOR GENERAL \(lsc.gov\)](#)

During this reporting period, the OIG received 93 Hotline contacts. Of these matters, 17 were referred to LSC management for follow-up, 14 were opened as investigations, and the remaining 62 were closed.

## Statistical Summary<sup>5</sup>

### Investigative Cases

Open at the beginning of the reporting period.....	18
Opened during the reporting period .....	21
Closed during the reporting period .....	14
Open at the end of the reporting period.....	25
Investigative reports issued .....	22

### Prosecutorial Activities

Persons referred to DOJ for criminal prosecution .....	4
Persons referred to state or local prosecuting authorities for criminal prosecution.....	0
Arrests or Criminal Complaints .....	0
Indictments/Informations.....	0
Convictions .....	0

### Investigative Activities

Inspector General subpoenas issued.....	7
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### Monetary Results

Recovery.....	\$29,700
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<sup>5</sup> Data reflected in the statistical summary were compiled based on direct counts.

## OTHER OIG ACTIVITIES

### Legislative, Regulatory, and Policy Reviews

Pursuant to our statutory responsibilities, the OIG reviews, and where appropriate comments on, statutory and regulatory provisions affecting LSC and/or the OIG, as well as LSC guidance and internal policies and procedures.

LSC's Technology Baselines. During the reporting period, the OIG provided comments on the draft *2023 Technology Baselines: Technologies that Should be in Place in a Legal Office Today (Baselines)*. The *Baselines* provide information technology (IT) best practices for every LSC grant recipient and legal aid office to consider implementing.

Overall, we found the *Baselines* comprehensive; they included important IT program items such as budgeting, hybrid operation, and sustainability. Our comments were wide ranging and were intended to enhance the *Baselines* by recommending additional technologies to strengthen IT security and increase the efficiency of legal services delivery.

Our comments were well-received as many were incorporated into the final *Baselines*, including recommending the *Baselines* incorporate the following items:

- Limit or exclude information on employees (especially financial staff) on organizations' websites, including roles and contact information, as many social engineering frauds and phishing are perpetrated using this information.
- Incorporate the importance of internal threats to systems and data to include threats and intrusions from internal staff and vendors.
- Require multi-factor authentication for accessing the internal network in addition to remote access.
- Use email security filtering tools, such as DMARC, DKIM and SPF, to strengthen the security of grant recipient email systems and verify the legitimacy of emails to help deter fraud.
- Implement a software patch management system to keep all operating systems and software updated with the latest security.
- Establish acceptable employee and network administrator use policies.
- Ensure in-office and remote access use appropriate privileges designated for each data system.
- Require changing passwords routinely, such as once a quarter or twice a year.

- Insist grantee work is done on grantee owned and managed devices to best secure grantee systems and data.
- Use case management systems capable of generating an audit trail of staff activities.
- Highlight the importance of triage systems as they increase the efficiency of the provision of legal advice and service.
- Include guidance on artificial intelligence and the use of CHATGPT as there is some experimentation within the grantee network.
- Address self-service technologies (including kiosks), along with geographical information systems.

### Freedom of Information Act

The OIG is committed to complying fully with the requirements of the Freedom of Information Act (FOIA). During this reporting period the OIG received and responded to one FOIA request. We, along with LSC management, received eight additional requests; and the OIG will respond to those requesting OIG records during the next reporting period.

### Professional Activities and Assistance

The OIG actively participates in and supports various activities and efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), as well as other inter-agency and professional groups. For example, the IG serves as a member of the CIGIE Audit Committee, which focuses on government auditing standards and cross-cutting financial and performance audit issues.

Senior OIG officials are active participants in IG community peer groups in the areas of audits, investigations, inspections and evaluations, public affairs, new media, and legal counsel. The groups provide forums for collaboration and are responsible for such initiatives as developing and issuing professional standards, establishing protocols for, and coordinating peer reviews, providing training programs, and promulgating best practices. The OIG also routinely responds to requests for information or assistance from other IG offices.

## APPENDIX – PEER REVIEWS

The following information is provided pursuant to the requirements of section 405(b) of the Inspector General Act of 1978, as amended, 5 U.S.C. §405(b)(16):

The last peer review of the OIG was conducted by the Federal Housing Finance Agency Office of Inspector General. Its report was issued on September 26, 2023. We received a rating of “pass.” Under CIGIE guidelines, this is the highest rating possible.



## TABLE I

### Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendation Number</u>	<u>Recommendation<sup>6</sup></u>	<u>Comments</u>
Central Virginia Legal Aid Society, Inc.	12/23/2019	8	Conduct a detailed review of all payroll processed in 2018 and 2019 to identify payroll over and underpayments and complete this review within six months of the issuance of this report.	The grantee partially responded to this recommendation. LSC management is working with the grantee to resolve this recommendation. LSC management will notify the OIG upon resolution.
Central Virginia Legal Aid Society, Inc.	12/23/2019	9	To the extent consistent with the law, reimburse employees that were identified as underpaid and attempt to recover payment from all employees that were identified as overpaid in the above review.	The grantee partially responded to this recommendation LSC management is working with the grantee to resolve this recommendation. LSC management will notify the OIG upon resolution.
Central Virginia Legal Aid Society, Inc.	12/23/2019	16	Ensure that LSC unallowable costs are charged to funding sources other than LSC and reflected within the financial software to provide an audit trail.	The OIG considered the grantee's comments regarding this recommendation unresponsive. LSC management is working with the grantee to resolve this recommendation. LSC management will notify the OIG upon resolution.
Legal Services Vermont	1/11/2021	1	Consult with LSC management to ensure the grantee's engagement with VLA meets the existence of separate personnel criteria stipulated in LSC Regulation 45 CFR 1610.8.	The grantee agreed with this recommendation and the OIG considered the grantee's comments as responsive; however, the OIG referred the recommendation to LSC management for resolution. LSC management conducted a Program Integrity (Part 1610) Review and is working with the grantee to resolve the recommendation. LSC management will notify the OIG upon resolution.

<sup>6</sup> There are no quantified potential cost savings associated with these open recommendations.

TABLE I (continued)

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendation Number</u>	<u>Recommendation<sup>7</sup></u>	<u>Comments</u>
Audit of LSC's Distribution, Use, and Oversight of CARES Act Funds	7/26/2022	1	Develop written procedures to maintain documents for Special Purpose, Disaster, or other similar grants. If the documents for requests and approvals of COVID-19 quarterly report extensions can be retrieved, keep them in a central location.	Corrective action in process. LSC management is working to develop and update document retention procedures. They stated that the target completion date is December 2023.
Audit of LSC's Distribution, Use, and Oversight of CARES Act Funds	7/26/2022	3	Ensure that Office of Program Performance (OPP) and Office of Compliance and Enforcement (OCE) Policies and Procedures Manuals are updated and complete, including policies and procedures for the oversight and monitoring of Disaster Program funds, which would include LSC CARES Act Funds.	Corrective action in process. LSC management is working to develop and update business processes for OCE and OPP, including all programmatic and oversight functions for basic field and special grant programs. Their target completion date is December 2023.
Audit of LSC's Distribution, Use, and Oversight of CARES Act Funds	7/26/2022	6	Complete revisions and publish the Office of Financial and Administrative Services (OFAS) Accounting Procedures Manual, including bank account verification policies and procedures.	Corrective action in process. LSC management is working to develop two OFAS policies and procedures manuals; one manual for accounting policies and another for accounting procedures. Their target completion date for the accounting policies manual was May 31, 2023. They report that the accounting procedures manual would be drafted starting in July 2023. LSC's response is due to the OIG on December 29, 2023.
Texas RioGrande Legal Aid, Inc.	11/10/2022	1	Ensure that the Accounting Policies and Procedures Manual is updated to reflect a methodology that (1) complies with 45 CFR § 1630.5(f), and (2) allocates common expenses in a fair, consistent, and equitable manner to individual cost centers, and funds.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.

<sup>7</sup> There are no quantified potential cost savings associated with these open recommendations.

## TABLE I (continued)

### Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendation Number</u>	<u>Recommendation</u> <sup>8</sup>	<u>Comments</u>
Texas RioGrande Legal Aid, Inc.	11/10/2022	2	Ensure that staff and management have training and an understanding of the cost allocation methodology, especially those responsible for reviewing and approving journal entries.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	3	Ensure that updates are made to the TRLA Accounting Policies and Procedures Manual to specify cash advances and ATM withdrawals as unallowable uses of credit cards, and to require that credit cardholders sign receipts for purchases under \$100 that do not require a purchase order.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	5	Ensure that only individuals formally authorized to use a credit card have access to the card information required to complete a purchase.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	10	Ensure that updates to the TRLA Accounting Policies and Procedures Manual include correct the removal of references to the PAMM, and a policy specifying authorized individuals who may enter into a contract on behalf of the grantee.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	13	Ensure that competitive bidding documentation is obtained for vendors subject to the competitive bidding threshold and maintained in a central file.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	14	Ensure that documentation of contract amendments is obtained and maintained for all contracts.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.

<sup>8</sup> There are no quantified potential cost savings associated with these open recommendations.

## TABLE I (continued)

### Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendation Number</u>	<u>Recommendation<sup>9</sup></u>	<u>Comments</u>
Texas RioGrande Legal Aid, Inc.	11/10/2022	16	Ensure that contracts are only entered into by authorized and appropriate individuals.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	18	Ensure that general ledger reports, with relevant bank account balances, are utilized and attached to the bank statement prior to review.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	21	Ensure that the Accounting Policies and Procedures Manual is updated to include a process to follow the Texas escheatment laws for outstanding checks.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	22	Ensure that TRLA documents policies and procedures regarding the budgeting process in the TRLA Accounting Policies and Procedures Manual. The policies should adequately describe the processes and controls in sufficient detail and adhere to regulations and guidelines in LSC's Accounting Guide.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	23	Ensure that the TRLA Accounting Policies and Procedures Manual is updated to include a specific deadline or prescribed number of days after month-end for the preparation of monthly management reports.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.

<sup>9</sup> There are no quantified potential cost savings associated with these open recommendations.

TABLE I (continued)

Recommendations Made Before This Reporting Period for  
Which Corrective Action Has Not Been Completed

<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendation Number</u>	<u>Recommendation</u> <sup>10</sup>	<u>Comments</u>
Texas RioGrande Legal Aid, Inc.	11/10/2022	24	Ensure that monthly management reports are reviewed by the Executive Director prior to distribution to the Finance Committee every month and the Board of Directors quarterly. Approvals of each monthly management report should be documented when the monthly management reports are finalized and reviewed by all parties.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	25	Ensure that assumptions used to create the budget are documented.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Texas RioGrande Legal Aid, Inc.	11/10/2022	26	Ensure that TRLA's Employee Handbook is updated to reflect the current policies described in the Collective Bargaining Agreement.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Land of Lincoln Legal Aid, Inc.	3/15/2023	9	All authorized card holders sign credit card user agreements in accordance with LOLLA's policies and LSC criteria.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Land of Lincoln Legal Aid, Inc.	3/15/2023	12	Management reporting policies and procedures are updated to comply with LSC requirements.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.

<sup>10</sup> There are no quantified potential cost savings associated with these open recommendations.

## TABLE II

### Audit Reports and Other Reports Issued During Reporting Period

#### Part A Audit Reports

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	<u>Funds Put to Better Use</u>	<u>Unsupported Costs</u>	<u>Management Decision Made by End of Reporting Period</u>
LSC 2022 Fiscal Year Audit of the Corporation	5/18/2023	\$0	\$0	\$0	N/A

#### Part B Other Reports

<u>Report Title</u>	<u>Date Issued</u>	<u>Description</u>
IT Vulnerability Assessment IT Vulnerability Assessment	4/11/2023 5/8/2023	Vulnerability assessments of grantees' computer networks conducted by an OIG contractor. The assessments identified potential vulnerabilities and recommended corrective actions.
LSC OIG Summary Information Technology Vulnerability Assessment Report (sent to all grantees) and LSC OIG Information Technology Vulnerability Assessments of Select Legal Services Corporation Grantees; 2023 Summary of Results of Key Recommendations to Strengthen Information Technology Security (since posted to the OIG website)	9/19/2023	The first report, sent to all grantees, summarized the common vulnerabilities and recommendations from the grantee assessments. The second report, available on the OIG website, includes recommendations and best practices to mitigate vulnerabilities and strengthen network security.

### TABLE III

#### Audit Reports Issued During a Prior Reporting Period for Which a Management Decision was Made During the Reporting Period

<u>Report Title</u>	<u>Date Issued</u>	<u>Date Resolved</u>	<u>Questioned Costs</u>	<u>Funds Put to Better Use</u>	<u>Unsupported Costs</u>	<u>Comment</u>
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None for this period

## TABLE IV

### Audit Reports Issued During Prior Reporting Periods with Unresolved Questioned Costs as of the End of the Reporting Period

<u>Report Title</u>	<u>Date of Issuance</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
Coast to Coast Legal Aid	7/8/2021	\$376,521	\$0



## TABLE V

### Index to Reporting Requirements of the Inspector General Act

<u>IG Act Reference*</u>	<u>Reporting Requirement</u>	<u>Page</u>
Section 4(a)(2)	Review of and recommendations regarding legislation and regulations.	None
Section 5(a)(1)	Significant problems, abuses, and deficiencies; recommendations for corrective action.	3, 9
Section 5(a)(2)	Recommendations made before the reporting period for which corrective action has not been completed.	19-23
Section 5(a)(3)	Significant investigations closed during the period.	9
Section 5(a)(4)	Number of convictions during the period resulting from investigations.	15
Section 5(a)(5)	Information on audit and other reports: questioned costs, unsupported costs, funds to be put to better use, and if management decision made.	24
Section 5(a)(6)	Information on management decisions during period re reports issued during prior period.	25
Section 5(a)(7)	Information per FFMIA §804(b).	None
Section 5(a)(8)-(10)	Information regarding peer reviews.	18
Section 5(a)(11)- (12)	Statistical table showing numbers of investigative reports, persons referred for prosecution, and indictments/informations resulting from prior referrals.	15
Section 5(a)(13)	Investigations involving senior employees where allegations of misconduct are substantiated.	None
Section 5(a)(14)	Instances of whistleblower retaliation.	None
Section 5(a)(15)	Attempts by the establishment to interfere with OIG independence.	None
Section 5(a)(16)	Specified matters closed and not disclosed to the public.	None

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\*Refers to provisions of the Inspector General Act of 1978, as amended.



[Oversight.gov](https://www.oversight.gov) was created by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to put on a single website all public reports from federal Inspectors General (IGs). The site includes a publicly accessible, text searchable repository of reports published by IGs, a user-friendly map to find reports based on geographic location and contact information for each IG's whistleblower hotline.

Like the other OIGs, at the Legal Services Corporation we will continue to post our reports to our own website, [www.oig.lsc.gov](http://www.oig.lsc.gov), but with Oversight.gov, users can sort, search, and filter the site's database of public reports from all of CIGIE's member OIGs, including the LSC OIG, to find reports of interest. Users can receive notifications when new reports are added to the site by following CIGIE's Twitter account, [@OversightGov](https://twitter.com/OversightGov).



## LSC OIG HOTLINE

# PROTECT YOUR PROGRAM AND YOUR CLIENTS

REPORT VIOLATIONS OF LAW AND LSC REGULATIONS



### FRAUDULENT ACTIVITY

TRAVEL, PAYROLL, AND CONTRACT FRAUD  
TIME AND ATTENDANCE ABUSE  
THEFT, BRIBERY, AND KICKBACKS  
DIVERSION OF CLIENTS/FEEs  
CYBER-CRIMES

### OTHER VIOLATIONS

IMPROPER USE OF LSC FUNDS  
VIOLATIONS OF LSC RESTRICTIONS  
CONFLICTS OF INTEREST



#### REACH US AT:

✉ [HOTLINE@OIG.LSC.GOV](mailto:HOTLINE@OIG.LSC.GOV)

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