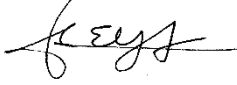




**TO:** Legal Services Corporation Board of Directors  
Ronald S. Flagg, President, Legal Services Corporation

**FROM:** Thomas E. Yatsco, Inspector General 

**DATE:** June 28, 2024

**SUBJECT:** OIG Strategy: Enhancing Proactive Efforts to Prevent and Detect Fraud,  
Waste, and Abuse in Legal Services Corporation Programs

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The U.S. Government Accountability Office (GAO) recently issued a significant report on fraud risk management, including estimates that fraud related to federal spending could total in the hundreds of billions of dollars each year.<sup>1</sup> Even before issuing this report, GAO consistently has called on stewards of federal funds to significantly enhance fraud detection and prevention activities. We recognize that the Legal Services Corporation (LSC) is not a Federal Government agency, but it nonetheless receives about 99-percent of its funding through federal appropriations and annually spends hundreds of millions of dollars of federal funds on grants to civil legal aid organizations.

In our view, the intent of GAO's estimates is to draw more attention to fraud prevention. Accordingly, we are compelled to lay out our strategy for proactively identifying fraud risks and early warning signs of actual fraud. We all have a shared responsibility to combat fraud, waste, or abuse before it occurs and before we see the end results, such as questioned cost referrals, prosecutions, or recoveries. I am sure you agree that every dollar wasted through the commission of fraud is one that is diverted from funding civil legal aid for eligible low-income Americans.

## OIG'S KEY TAKEAWAYS FROM GAO'S REPORTING ON FRAUD

In reviewing GAO's recent report—and considering their extensive prior fraud reporting and testimony statements—OIG's main takeaways are:

- The significance of the estimated annual loss from fraud in federal spending—as much as \$521 billion per year—underscores the importance of rigorously and comprehensively identifying,

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<sup>1</sup> [Fraud Risk Management: 2018-2022 Data Show Federal Government Loses an Estimated \\$233 Billion to \\$521 Billion Annually to Fraud, Based on Various Risk Environments | U.S. GAO](#) (GAO-24-105833). The estimates do not include fraud loss associated with federal revenue.

understanding, and managing fraud risks in federally funded programs and operations. This must be done in a proactive manner.

- Management<sup>2</sup> and Inspectors General should emphasize fraud prevention and simultaneously focus on early detection of red flag indicators of fraud that could waste scarce resources. Boards or Commissions should also consistently stress the importance of prevention and detection.
- Employing data analytics and fully leveraging available information will help to proactively identify potential fraud, red flag indicators of fraud, and emerging systemic trends, before they become problems that may result in the waste of money and/or create reputational harm.
- Given that undetected potential fraud cannot be directly observed, agencies and oversight bodies should make use of data analytics and statistical analysis to accurately estimate the scope of potential fraud and effectively prioritize oversight resources.
- By actively leveraging data sources, organizations receiving federal funds would be better positioned to strategically manage fraud risks. Through real-time reviews of available data, OIGs would also be better positioned to assist their organizations in combating fraud.

## OIG'S STRATEGY FOR PREVENTING FRAUD IN LSC PROGRAMS

LSC OIG is committed to helping LSC Management and the Board of Directors execute their core responsibilities to actively manage fraud risks.<sup>3</sup> Accordingly, OIG's comprehensive strategy for meeting the intent of GAO's conclusions and call to action consists of the following elements:

- **Expand OIG's fraud prevention review program to reach more grantees.** These reviews are forward-focused and identify risks to compliance with core LSC financial and regulatory requirements. Grantees have consistently told us these proactive reviews are helpful in identifying internal control gaps in their policies and procedures. We will issue reports online that summarize our key suggestions and observations.
- **Identify more opportunities to conduct fraud awareness briefings for grantees and LSC staff.** As time and resources allow, we will work with grantees to expand the number of

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<sup>2</sup> Principle 8 of GAO's standards for internal control states that: "management should consider the potential for fraud when identifying, analyzing, and responding to risks." See: [Standards for Internal Control in the Federal Government | U.S. GAO.](#)

<sup>3</sup> GAO's internal control standards state that "external auditors and the office of the inspector general (OIG), if applicable, are not considered a part of an entity's internal control system. While management may evaluate and incorporate recommendations by external auditors and the OIG, responsibility for an entity's internal control system resides with management."

presentations designed to increase awareness of red flag indicators of fraud and cyber security risks. We will also work with Management to set up presentations for LSC staff in the coming months.

- **Enhance OIG’s proactive reviews of LSC grantee information to identify potential red flags of fraud and or other forms of waste.** To advance this goal, we will seek to enhance our proactive reviews of information in LSC’s grants management system, GrantEase, and any system(s) where LSC stores information outside of GrantEase. For example, proactive reviews by our subject matter experts could make the Board and Management aware of red flag indicators to help them appropriately intervene or prompt OIG to initiate an investigation, audit, or other review.
- **Evaluate LSC’s policies and processes in relation to GAO’s fraud prevention framework.**<sup>4</sup> We will conduct a comparison of LSC’s fraud prevention activities against the leading practices set forth in GAO’s fraud risk framework, while ensuring that any insights we offer are scalable and appropriate for LSC’s size, setup, and structure.
- **Continue our essential focus on actively investigating credible allegations of misconduct and holding wrongdoers accountable.** Our goal is to offer objective, timely, and accurate investigative products and we take seriously our responsibility to diligently work with LSC management, law enforcement partners, and/or prosecutors to ensure accountability in the use of LSC funds.
- **Continue using and promoting awareness of the OIG Hotline.** The OIG Hotline is a core responsibility of any federally authorized OIG. It exists to collect and evaluate allegations from LSC staff, grantees, and the public about potential fraud in real time; and enable us to aggressively act upon credible allegations. We will work with LSC management to identify more opportunities to ensure that all LSC employees and grantee staff are fully aware of this important tool in the fight against fraud, and that they know about their responsibility for reporting indications of fraud to the OIG.<sup>5</sup> We will also continue to look for trends reported to the Hotline which might warrant additional oversight work.
- **Maintain a One OIG approach to independent oversight of fraud risks.** Our investigators and auditors will continue to work closely together and share information in the planning and execution of their oversight work. By leveraging their diverse areas of expertise and experience, we can identify potential fraud or inappropriate spending. Further, our auditors frequently identify gaps in policies, processes, and other internal controls that could be exploited

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<sup>4</sup> See: [GAO-15-593SP, A Framework for Managing Fraud Risks in Federal Programs.](#)

<sup>5</sup> [Contact the OIG Hotline | OFFICE OF INSPECTOR GENERAL \(lsc.gov\).](#)

by people aiming to commit fraud. We also diligently review grantees' annual financial statement audit reports, including recommendations for improvement, and carefully assess all referrals from LSC Management—and act upon them as warranted.

## **CONCLUDING OBSERVATIONS**

We are committed to enhancing our independent efforts to prevent fraud, which wastes scarce resources. However, we are not the only line of defense. Documented cases of fraud, waste, and abuse are lagging indicators. They are indicative of missed opportunities for management at all levels to establish robust internal controls and actively monitor their effectiveness. We encourage LSC leaders to leverage every opportunity to consistently promote the importance of accountability, integrity, and fraud prevention and detection, including in their communications with their employees and grantees.

We look forward to working with LSC as we enter a new era, where we use every tool available to proactively combat fraud in all shapes and forms. Our shared goal remains: to maximize every U.S. taxpayer dollar invested in LSC's efforts to fund high-quality civil legal assistance for low-income Americans.