LEGAL SERVICES CORPORATION

Office of Inspector General

Semiannual Report to the Congress
October 1, 2017 – March 31, 2018

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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 pleased to submit this report on the activities and accomplishments of LSC's Office of Inspector General (OIG) for the period October 1, 2017 through March 31, 2018.

During this reporting period our audit office issued five reports. Three audit reports focused on the adequacy of LSC grantees' internal controls, particularly with respect to financial operations. The reports documented specific control weaknesses and areas of concern and made recommendations for corrective action. Notably, the grantees agreed or partly agreed with 100% of our recommendations. We also provided oversight for the Corporation's 2017 financial statement audit, issued during the period. The Corporation received a "clean opinion," with no significant deficiencies, material weaknesses, or reportable noncompliance issues noted.

We continued a program of conducting vulnerability assessments of grantees' computer systems, testing for both internal and external weaknesses in their networks. We provided all grantees with a report summarizing findings of the past year's reviews. The report identified common security issues and detailed recommended best practices for mitigating vulnerabilities and strengthening grantees' systems. We believe this effort has been of significant benefit, helping grantees to identify and correct issues that could compromise the integrity of their information systems.

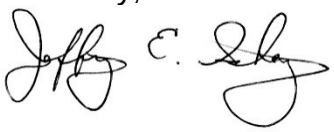
We also continued our Quality Control Review (QCR) program, to provide enhanced oversight of the independent audits required annually of LSC grantees. During the period we issued seven QCRs.

We opened 25 new investigations and closed 15 investigations during the reporting period. The investigations involved a variety of criminal and regulatory matters, including fraud, false claims, theft of client funds, and the unauthorized practice of law. Our investigations also led to the recoupment by LSC of misspent grant funds.

We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. We issued a fraud alert and a management advisory, and maintained an active calendar of grantee visits, including fraud awareness briefings and vulnerability assessments.

I wish to express my appreciation to all the members of the Board of Directors for the interest and support they have shown for the work of the OIG. I also remain deeply appreciative to the Congress for its steadfast support of this office.

Sincerely,



Jeffrey E. Schanz
Inspector General
April 30, 2018

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OFFICE OF INSPECTOR GENERAL OVERVIEW

The LSC Office of Inspector General operates under the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3. The OIG has two principal missions: (1) to promote economy and efficiency in the activities and operations of LSC and its grantees; and (2) to prevent and detect fraud and abuse.

Our primary tool for achieving these missions is objective and independent fact-finding. We perform financial and other types of audits, evaluations, and reviews, and conduct criminal and regulatory compliance investigations. Our 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, and increase the economy, efficiency, and effectiveness of LSC programs.

The OIG is also tasked with ensuring the quality of audits of LSC and its grantees, and with reviewing proposed and existing regulations and legislation affecting the operations and activities of LSC and the programs it funds.

In addition, since 1996, LSC's annual appropriations have directed that grantee compliance with legal requirements be monitored through the annual grantee audits conducted by independent public accountants, under guidance provided by the OIG. Congress has also specified that the OIG has authority to conduct its own reviews of grantees.

LSC's 2018 appropriation (exclusive of OIG operations) was $404.9 million. The Corporation provides funding to 133 independent nonprofit legal aid programs throughout the U.S. and its territories.

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, its Board of Directors, and directly to Congress.

The IG Act also prohibits LSC from assigning to its IG any of LSC's own "program operating responsibilities." This means that the OIG does not perform functions assigned to LSC by the Legal Services Corporation Act, 42 U.S.C. §§ 2996 *et seq.*, other than those transferred to the OIG under the IG Act and those otherwise assigned by Congress, for example in LSC's annual appropriations acts.

The IG reports serious problems to the LSC Board of Directors and must also report to 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 informed of the activities of the office through semiannual reports and other means. The IG also provides periodic reports to the board and management of LSC and, when appropriate, to the boards of directors and management of LSC grantees. Some of these reports will be specific (*e.g.*, an audit of a particular grantee or an investigation of a theft or embezzlement), while others will be of broader application.

Within their different statutory roles, the OIG and LSC management share a common commitment to improving the federal legal services program and increasing the availability and effectiveness of legal services for low-income persons.

AUDITS

As discussed below, during this reporting period the OIG issued five reports: three audit reports with respect to grantee operations and internal controls; a report on common grantee computer security vulnerabilities, including recommended best practices for addressing them; and a year-end financial statement audit of LSC. At the conclusion of the period, we had five projects underway, in various stages of completion.

The OIG has responsibility for overseeing the independent public accountant (IPA) audits performed annually at each grantee. During the reporting period, we reviewed 25 IPA reports, with fiscal year ending dates ranging from December 31, 2016, through September 30, 2017.

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

Legal Aid of Northwest Texas

The OIG assessed the adequacy of selected internal controls at Legal Aid of Northwest Texas (LANWT). The onsite work was conducted at the grantee's principal office, located in Fort Worth, Texas. We found that while many of LANWT's controls were adequately designed and properly implemented, some controls needed to be strengthened and/or formalized in writing.

We reported that the following areas needed improvement:

- LANWT's written cost allocation policies did not describe the allocation methodology for expenses that are unallowable under LSC rules. The cost allocation formula also lacked sufficient detail.

- There were no written policies and procedures related to contracting. Our review of eighteen vendor files found the following:

    - Two files lacked a documented contractual agreement for services provided.
    - Two files contained no contracts for the entire period of services provided.
    - Twelve files had no documentation describing the vendor selection process.
    - One file had an invoice that did not agree with the contracted rates, yet payments were issued according to the invoice.

- The chief financial officer did not have a unique username and password to access the accounting system and was using the accounting operations manager's login information.

- LANWT's written policies relating to disbursements did not address key aspects of the disbursement process, such as voiding checks, maintaining and safeguarding the blank stock of pre-numbered checks, and authorized signatories. In addition, of the 107 disbursements reviewed, three disbursements totaling $1,692 were not accompanied by check request forms as required by the grantee's approval procedures.

- Written policies relating to credit cards did not address procedures regarding card issuance, account activation and deactivation, spending limits, and the cardholder reconciliation process.

- Written policies relating to management reporting and budgeting misstated the frequency of preparation of one managerial report. We also noted that the operating expenses portion of the budget projections were not developed in accordance with LSC's Accounting Guide. Operating expenses should initially be developed at the department level and then compiled to create the total budget. However, operating expenses were allocated to the departments based on LANWT's total expenses.

- LANWT's written policies and procedures for fixed assets did not address the following elements required by the Fundamental Criteria provisions of the LSC Accounting Guide:

    - elements pertaining to property records;
    - policies and procedures for tracking sensitive electronics that are not capitalized;
    - physical inventory procedures; and
    - dollar values for capitalization of fixed assets.

- Although LANWT's actual practices over payroll were adequate, there was no documentation of payroll policies and procedures, or of the functions of staff relating to the payroll process.

The OIG made 11 recommendations:

- Seven recommendations addressed the need to establish or update written policies and procedures for cost allocation, contracting, disbursements, credit cards, internal reporting, fixed assets, and payroll. The recommendations were to ensure that the grantee's manual describes the processes and controls in sufficient detail to accord with LSC's Accounting Guide and the Fundamental Criteria.

- One recommendation related to contracting and addressed the following:

    - Contracts should be written, signed, and maintained for all business arrangements, especially those that are recurring.
    - The process for each contract action should be fully documented.
    - A centralized filing system for all contracts should be maintained and include all pertinent documents.

- One recommendation related to strengthening the general ledger and financial controls by assigning a unique username and password to each staff member with access to the accounting system.

- One recommendation pertained to disbursements, addressing the need to ensure check request procedures are followed and that deviations from procedures are documented in the policies.

- One recommendation related to internal reporting and budgeting, addressing the need to ensure all budget revenues and expenses are developed from the departments and compiled to create a total budget.

LANWT management agreed with our findings and accepted all eleven recommendations.

The OIG considered the proposed actions to address all recommendations as responsive. Ten recommendations were considered closed as grantee management had implemented immediate resolutions. One recommendation will remain open until the OIG receives written notification that the grantee has updated its accounting manual.

Statewide Legal Services of Connecticut

The OIG assessed the adequacy of selected internal controls in place at Statewide Legal Services of Connecticut, Inc. (SLSC). The onsite work was conducted at the grantee's principal office, located in Wethersfield, CT. While some of the controls were adequately designed and properly implemented, we found that controls in the areas detailed below needed to be strengthened and/or formalized in writing.

We identified the following as areas that needed improvement:

- Cost allocations were not performed in the grantee's QuickBooks accounting system, which resulted in the absence of an audit trail to identify funding source expenditures.

- Although their written cost allocation policies adhered to the Fundamental Criteria, in practice SLSC did not apply the written formula consistently when allocating costs to LSC.

- Of the 11 vendor files reviewed, we noted inadequate contracting documentation as follows:

    - For one of the vendor files, management was unable to locate a documented contractual agreement.
    - Two of the vendor contracts did not have the contractual period included in the contract.
    - For seven of the vendor files, management was unable to provide supporting documentation of the contracting process.
    - Six of the eleven vendor files lacked documentation of proper approval.

- We noted electronic controls in the accounting information system did not adequately prevent errors or other misstatements.

- There was a lack of segregation of duties over the maintenance of the Master Vendor List.

- Of the 110 individual disbursement transactions reviewed, 22 transactions totaling $58,038 were missing appropriate approvals.

- We identified duplicate check numbers paid to two different vendors on different dates.

- SLSC's written policies and procedures regarding credit cards, fixed assets, and general ledger and financial controls did not fully adhere to LSC's Fundamental Criteria.

- Unauthorized personnel had access to the locked cabinet where the credit cards were stored.

- Of the 71 credit card transactions reviewed, three transactions totaling $1,318 were made by two unauthorized users. Three transactions in the amount of $1,861 were not documented in the grantee's credit card log, making it impossible to determine if the transactions were made by authorized users. Twenty-three transactions totaling $12,131 did not have the requisite approvals.

- SLSC's payroll bank account had been dormant and payroll transactions had been processed through the grantee's general operating account.

- Although the content of the electronic payroll register was accurate, the paper-based timesheets were not reviewed and approved by the employees' immediate supervisor.

- SLSC prepared budgets at the beginning of the year based on historical data and/or totals, not according to cost or function as required by the LSC Accounting Guide.

- Monthly reports are prepared, but the monthly reports present only the overall totals from all funding sources and not the total per funding source. SLSC did not track expenses per grant.

- General journal entries and documentation relating to the 2016 physical inventory were not reviewed and approved as prescribed by SLSC's written policies and procedures.

- SLSC's property records did not include several of the elements required by the Fundamental Criteria, including the check number used to pay for an item, funding source, and disposition data.

- The petty cash fund lacked adequate internal controls as it was not being reconciled on a consistent and periodic basis.

The OIG made 25 recommendations:

- Three recommendations related to cost allocation: ensuring the accounting system's general ledger is designed to accommodate fund, cost, or function accounting; enforcing consistency in following the written cost allocation policy, including all formulas and methodology; and ensuring the accounting staff obtain training on the accounting system's capabilities so staff will be able to utilize all the functions contained within the system.

- Three recommendations related to internal controls over contracts, addressing the need to ensure that: contracts are written, signed, and maintained for all business arrangements; that a centralized filling system is maintained and contains all pertinent documents; and that the process for each contract action is fully documented in writing.

- Four recommendations related to internal controls over disbursements, addressing the need to ensure that user access to the accounting information system is appropriately limited; that duties involving the maintenance of the vendor list and vendor payment processing are adequately separated; that all incurred expenses are reviewed and appropriately approved; and that the accounting information system is configured to detect duplicate check numbers.

- Six recommendations addressed the need to update their accounting policies and procedures manual; improve internal controls over the issuance, maintenance, and use of credit cards; and to ensure proper documentation and approval of credit card purchases.

- Two recommendations related to internal controls over payroll, addressing the need to ensure that payroll activities are not processed in the general bank account but in a separate payroll account, and that timesheets are monitored and approved by the employee's immediate supervisor.

- Two recommendations related to internal controls over internal reporting and budgeting, addressing the need to ensure that budgets are built from cost centers or funding sources, and that expenses are tracked by grant within the accounting system.

- Three recommendations related to internal controls over fixed assets: updating the accounting manual policies and procedures to reflect the property records' required elements; ensuring management performs and documents the review and approval of general journal entries; and ensuring the grantee's property records are updated to include all requirements mandated by LSC.

- Two recommendations related to internal controls over general ledger and financial controls: updating the accounting manual policies and procedures to include details on the handling of outstanding checks and on how the accounting system provides for separation of receipts and disbursements; and ensuring that the petty cash account is periodically reconciled, then reviewed and approved by someone other than the person performing the reconciliation.

SLSC management fully agreed with all the findings and accepted all the recommendations.

The OIG considered the proposed actions to address all the recommendations responsive. Eleven recommendations are considered closed. Three recommendations will remain open until the grantee's accounting policies and procedures manual has been approved by the board of directors. Eleven recommendations will remain open until appropriate supporting documentation is provided.

Puerto Rico Legal Services, Inc.

The OIG assessed the adequacy of internal controls at Puerto Rico Legal Services Inc. (PRLS) in San Juan, PR. We found that while many of the controls were adequately designed and properly implemented, some controls needed to be fully implemented and/or formalized in writing.

We identified the following as areas that needed to be improved:

- PRLS had no written policies and procedures specific to its contracting process. In addition, the written policies and procedures for cost allocation needed to be strengthened to properly describe the controls and procedures followed in practice by the grantee.

- PRLS's practice in allocating attorney salaries was not in accordance with its written policy. The grantee's policy states that attorney salaries are based on the number of hours recorded in the timekeeping system. However, in practice, all attorney salaries are charged to LSC.

- PRLS's cost allocation formula was not written with adequate detail.

- PRLS misclassified its LSC Technology Initiative Grant (TIG) of $91,827 as non-LSC funds in the audited financial statements for FYE 2015.

- PRLS did not consistently perform monthly bank reconciliations in a timely manner.

- There was no written documentation of PRLS's board of directors' approval and/or oversight of the executive director's credit card transactions.

- PRLS did not record the funding source used to purchase fixed assets, as required by LSC's Fundamental Criteria.

The OIG made seven recommendations:

- One recommendation related to written policies and procedures over contracting: establish a written contracting policy to identify procedures for various types of contracts, including dollar thresholds and competition requirements, as set forth in LSC's Fundamental Criteria.

- Two recommendations related to written policies and procedures over cost allocation: ensure that the written cost allocation policy for attorney salaries is implemented in practice; and ensure that the accounting manual presents the cost allocation formula and methodology with sufficient detail to be easily understood and followed.

- One recommendation related to misclassification in financial reporting: ensure that the audited financial statements for FY 2015 are corrected to properly classify TIG grants as a separate line item.

- One recommendation related to general ledger and financial controls: ensure that bank statements are reviewed, approved, and reconciled monthly.

- One recommendation related to credit cards: ensure that the board of directors' approval and/or oversight over credit card transactions is adequately documented.

- One recommendation related to fixed assets: ensure that the funding source is recorded in the property subsidiary record.

The grantee resolved three recommendations; the OIG considers these recommendations closed. Three recommendations will remain open until grantee management provides documentation to the OIG of revisions to their accounting manual. One recommendation will also remain open until the grantee provides documentation that they are performing timely bank reconciliations.

Vulnerability Assessments of Grantee Computer Networks

We continued a program, begun in 2016, of conducting vulnerability assessments of grantees' computer networks. Working with a specialized contractor, assessments were performed on three grantees' systems. The tests scanned for potential vulnerabilities in the systems' architecture, technologies, and processes, from both outside and within the grantees' networks.

The assessments found that the grantee sites tested generally did not present a high-level risk of exposure from outside their networks. A limited number of critical or high-level vulnerabilities were found in the external boundaries of grantees' networks. The more critical vulnerabilities discovered at each grantee site were internal to their network environments. These principally resulted from out-of-date operating systems and/or missing patches and updates. A complete list of potential issues and vulnerabilities was provided to the grantees for review and remediation. A list of corrective actions and best practices was also provided to the grantees.

The OIG transmitted a report to all grantee executive directors providing a summary of the assessments' findings and resulting recommendations. While the size and complexity of each grantee's network was different, the report identified common security issues and provided best practices to mitigate these vulnerabilities. The issues noted were intended to provide insight into common problem areas that may affect LSC grantees and to identify ways to strengthen their network security.

FY 2017 Corporate Audit

The FY 2017 LSC financial statement audit report was issued this reporting period and transmitted to LSC's Board of Directors. The Corporation's financial statement audit is conducted by an independent public accounting firm, under contract and subject to general oversight by the OIG. The OIG reviewed the work of the firm and found it in compliance with generally accepted government auditing standards. The Corporation received an unqualified opinion on the audit of its financial statements. The auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters identified no material weaknesses in internal controls and no reportable noncompliance with laws and regulations.

Statistical Summary

Audits

Open at beginning of reporting period 5

Opened during the period 5

Audit reports issued or closed during reporting period 5

Open at end of reporting period 5

Recommendations to LSC Grantees

Pending at beginning of reporting period 86

Issued during reporting period 43

Closed during reporting period 72

Pending at end of reporting period 57

Recommendations to LSC Management

Pending at beginning of reporting period 0

Issued during reporting period 0

Closed during reporting period 0

Pending at end of reporting period 0

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 the Corporation be subject to an annual audit, to be conducted by an independent public accountant (IPA). Each grantee contracts directly with an IPA to conduct the required audit in accordance with generally accepted government auditing standards and the OIG Audit Guide for Recipients and Auditors (including the Compliance Supplement), which incorporates most requirements of 2 CFR 200, Uniform Guidance (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).

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

Desk Reviews of IPA Reports

The OIG conducts desk reviews of all IPA reports issued to grantees. This process enables us to identify and forward significant IPA findings to LSC management as necessary. We also track recommendations to determine whether appropriate responsive actions have been taken. We use information from the review of the IPA reports as part of our risk assessment and planning processes, identifying potential problems or concerns that may warrant follow-up via audit, investigation, or other review.

Quality Control Reviews

We continued the seventh year of our Quality Control Review (QCR) initiative. Under this 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 CPA firm under contract to 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 seven QCRs of FY2016 audited financial statements.

One QCR met standards with no exceptions. Six of the QCRs met standards with one or more exceptions and required the IPA to perform additional work and provide documentation to support their conclusions. We evaluated and accepted the additional work and documentation submitted by all six IPAs during this reporting period. We accepted five of the audits as a result. The work performed by one IPA was not sufficient

to address the recommendations in the QCR. We required the IPA to perform additional work to satisfy the recommendations in the report.

During the previous reporting period, we found that a grantee's financial statement audit did not meet standards. The OIG issued a notice to the IPA requiring them to perform corrective action and provide additional information to address the deficiencies. We evaluated the additional work performed by the IPA in this reporting period and accepted the audit.

During a previous reporting period, we found 12 FY2015 QCRs met standards with exceptions and required the IPAs to perform additional work and provide additional documentation to support their conclusions. We evaluated and accepted the additional work and documentation submitted by 10 IPAs in prior reporting periods. This reporting period we evaluated the documentation and additional work submitted by the other two IPAs and determined that the deficiencies had been corrected.

Follow-up Process

LSC's annual appropriations acts have specifically required that LSC follow-up on significant findings identified by the IPAs and reported to the Corporation's management by the OIG. 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 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 management's request and decides independently whether it will agree to close the finding(s).

Review of Grantees' Annual Audit Reports: IPA Audit Findings

In order to provide more complete information in our semiannual reports to Congress, the OIG customarily includes 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 25 IPA audits of grantees with fiscal year ending dates from December 31, 2016 through September 30, 2017. Of the 25 audits, one was of a sub-recipient of LSC funds. These audit reports contained 14 findings. The OIG reviewed the findings and determined that six were either not significant, or that corrective action had already been completed. The remaining eight

findings were referred to LSC management during the period for follow-up. The following tables present information on those findings.

Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2016 through September 30, 2017

Total Number of Findings Referred	8
Number of Findings with Corrective Action Accepted by LSC Management	0
Number of Findings Awaiting LSC Management Review	8

Types of Findings Referred to LSC Management for Follow-up

Category	Number of Findings
Financial Transactions and Reporting	5
Policies and Procedures/Other	3
TOTAL	8

INVESTIGATIONS

During this period, OIG investigations resulted in one personnel action and the disbarment of one attorney. LSC management also made a decision to recover funds, totaling nearly $13,000, based on a questioned cost referral for unreasonable and/or unauthorized expenditures by a grantee.

The OIG opened 25 cases during the period. These included 15 investigative cases, three Regulatory Vulnerability Assessments, and seven Fraud Vulnerability Assessments. The investigative cases included allegations of fraudulent travel claims, time and attendance fraud, contracting fraud, unauthorized practice of law, and potential violations of LSC statutes and regulations.

The OIG closed 15 cases during the reporting period. These included eight investigative cases, three Regulatory Vulnerability Assessments, and four Fraud Vulnerability Assessments.

Recovery Actions

Final Determination of Questioned Cost Regarding Private Attorney Involvement and Attorneys' Fees

An OIG investigation, last reported in our April 2017 Semiannual Report to Congress, identified potential unallowable expenses incurred by a grantee in paying a contract private attorney two times for the same hours.

Our investigation determined that the grantee contracted with a private attorney to work grantee cases at the hourly rate of $75.00 per hour. The grantee paid the attorney $17,925 for 239 hours of work on a case, at the $75.00 hourly rate for her services. When the case was settled, the grantee paid the attorney an additional $48,460 in attorneys' fees arising from the settlement, which were based on the same 239 hours. The OIG referred the matter to LSC management as questioned costs.

LSC management made a final determination to disallow $12,915. This amount represented the portion of duplicate payment of attorneys' fees funded by LSC. LSC is recouping the funds from the grantee's 2018 grant payments.

Personnel Actions

Termination of Grantee Paralegal

An OIG investigation resulted in the termination of a grantee paralegal for misuse of grantee resources and the unauthorized practice of law. It was reported to the OIG that a Federal bankruptcy court required a paralegal to inform the grantee that he improperly used program resources to file a bankruptcy for a non-grantee client. In addition, the court found that the paralegal negligently or fraudulently prepared a bankruptcy petition for this non-grantee client.

Upon further investigation, it was determined that the paralegal had filed bankruptcy petitions for other non-grantee clients using grantee resources and had negligently or fraudulently prepared bankruptcy petitions for other non-grantee clients. As a result of proceedings before the bankruptcy court and the additional incidents of improper bankruptcy filings, the grantee terminated the paralegal's employment.

Administrative Actions

Former Subgrantee Executive Director Disbarred

As reported in our last Semiannual Report to Congress, following an OIG investigation, a former executive director of an LSC subgrantee was convicted of theft from a program receiving federal funds, and was sentenced in federal court to five years' probation, five months home confinement, and a fine of $10,000.

Following her felony conviction and sentencing, the state bar took action to disbar the former executive director.

Regulatory Investigations

An OIG investigation last reported in our October 2017 Semiannual Report to Congress, identified possible violations by an LSC grantee of 45 C.F.R. Part 1610, Use of Non-LSC Funds, Transfers of LSC Funds, Program Integrity, and 45 C.F.R. Part 1612, Restrictions on Lobbying and Certain Other Activities. The investigation, based on a Hotline complaint, determined that grantee employees, including three who were serving on the board of directors of a non-profit entity, may have engaged in lobbying activities. In addition, the non-profit entity contracted with a registered lobbyist. We referred our findings to LSC management for review.

As a result of our referral, LSC management determined that the grantee will be required to submit: (1) evidence of compliant Part 1612 policies and procedures; (2) evidence that

all grantee staff have undergone training regarding compliance with Part 1612 and with the grantee's own policies and procedures related to this regulation; and (3) a year-end certification from each employee confirming that they had not engaged in activities during 2018 which would violate Part 1612.

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 provide fraud alerts and other information to help increase grantees' awareness of developing trends that may pose a risk to LSC funds.

Fraud Awareness Briefings

FABs are presented by experienced OIG investigative staff and cover topics such as who commits fraud, what conditions create an environment conducive to fraud, how fraud can 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 to occur within their own programs. FABs highlight the unfortunate truth that a number of LSC-funded programs have been victimized by frauds involving hundreds of thousands of dollars, and in one case the diversion of over a million dollars in grant funds.

The 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 154 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, LSC headquarters personnel, a presentation at a National Legal Aid and Defender Association annual conference, and six webinars that reached multiple grantees.

Two FABs were completed at grantees and one FAB webinar was provided to new LSC grantee executive directors and other employees at six grantees during this reporting period.

Fraud Vulnerability Assessments

FVAs are conducted at LSC grantee offices and 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 to which they are complied with 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, 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 helping grantee staff members become aware 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 the reporting period.

Regulatory Vulnerability Assessments

We began conducting RVAs based our experience in 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, conducted at grantee offices, seek to determine whether the grantee is following applicable provisions of the LSC Act, LSC regulations, grant assurances, provisions of the Accounting Guide, and case documentation and reporting requirements as set forth in 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.

Three RVAs were closed during the reporting period.

Fraud Alert on Outside Employment

During the prior reporting period, the OIG issued a fraud alert to executive directors and their boards of directors to inform grantees of OIG investigations dealing with the risk of fraud, waste, and abuse associated with non-attorney outside employment.

The alert identified several trends relating to non-attorney staff failing to notify management of their outside employment, diverting potential income-eligible clients to their outside employment to collect illicit fees, and working their outside jobs during grantee business hours. The alert offered suggestions for detecting potential outside

employment abuse, and best practices to prevent potential conflicts of interest, theft of program resources, or the improper diversion of clients.

In response to the fraud alert, LSC management issued a program letter to grantees offering guidance on how to create and implement an outside employment policy, as well as how to document and track outside employment by grantee staff.

Fraud Alert on Prompt Reporting of Potential Fraud Indicators

A fraud alert was issued to executive directors and their boards of directors to remind grantees of the requirement under LSC Grant Terms and Conditions that they notify the OIG of potential or actual loss of funds.

The fraud alert also provided grantees with a detailed list of specific fraud patterns, derived from OIG investigations during the last three years, to help ensure timely recognition and intervention.

Management Information Memorandum

The OIG issues Management Information Memoranda (MIMs) when we believe that matters uncovered in the course of ongoing work should be brought to management's attention. During this reporting period, we issued a MIM focused on prompt reporting by LSC's own employees of potential fraud indicators.

The MIM highlighted the LSC Code of Ethics and Conduct and the Employee Handbook requirements that employees promptly report unlawful and unethical behavior to the OIG. The MIM underscored the critical role personnel in LSC's Office of Compliance and Enforcement and Office of Program Performance can play in early recognition and response to indications of fraud, waste, and abuse. It also provided a detailed list of specific fraud patterns, derived from OIG investigations during the last three years, to help ensure timely recognition and intervention.

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 provider's identity will be kept confidential. Reports may also be made anonymously.

During this reporting period, the OIG received 47 Hotline contacts. Of these matters, 14 were referred to LSC management for follow-up, nine were opened as investigations, and the remaining 24 were closed.

Statistical Summary

Investigative Cases

Open at the beginning of period 21

Opened during period 25

Closed during period 15

Open at the end of period 31

Investigative reports issued 5

Prosecutorial Activities

Referrals pending at the beginning of the period 1

Persons referred to DOJ for criminal prosecution 2

Persons referred to state and local prosecuting authorities for criminal prosecution 0

Referrals declined during the period 1

Referrals accepted during the period 1

Pending at the end of the period 1

Investigative Activities

Inspector General subpoenas issued 18

Personnel Actions

Separation from employment 1

Administrative Actions

State bar disbarment 1

Monetary Results

LSC decisions to disallow costs based on referrals from prior periods and referrals from this period	$12,915
Total	$12,915

Metrics

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 interpretive guidance and internal policies and procedures.

LSC Regulations

During the reporting period, the LSC Board of Directors acted on two regulations, following OIG recommendations that the regulations be revised.

45 CFR Part 1603 – State Advisory Councils. Part 1603 implemented section 1004(f) of the LSC Act, which required LSC to request that the state governors appoint state advisory councils, which would primarily advise LSC of any apparent violation of the LSC Act or rules and regulations by a recipient of LSC funds. Because the councils had not been active for some time, the OIG recommended that LSC either request the governors to establish such councils or rescind this provision of the regulations.

LSC conducted research establishing that LSC had complied with its statutory obligations and that, since the state advisory council requirement was enacted, LSC had developed oversight mechanisms effectively carrying out the functions the councils were intended to serve. Accordingly, in October 2017 the Board authorized rulemaking to rescind Part 1603, and in January 2018 authorized publication of a notice of proposed rulemaking to that effect. LSC published the proposed rule in February 2018; the Board authorized publication of a final rule rescinding Part 1603 shortly after the close of this reporting period.

45 CFR Part 1603 – Requests for Documents and Testimony (New *Touhy* regulation). Regulations setting out procedures for responding to requests from litigants for documents and/or testimony are standard at most agencies. LSC had no such regulation, but over several years had received subpoenas from litigants for LSC and OIG records. The OIG recommended that LSC promulgate such procedures, known as a *Touhy* regulation (after *United States ex rel. Touhy* v. *Ragen,* 340 U.S. 462 (1951)). LSC considered the issue and in January 2018 the Board authorized publication of a notice of proposed rulemaking. LSC published the proposed rule in February 2018, as a new Part 1603, replacing the version of 1603 relating to state advisory councils. The Board authorized publication of a final rule promulgating a *Touhy* regulation shortly after the close of the reporting period

LSC Policies

LSC is in the process of revising the criteria used to evaluate the quality of legal assistance provided by its grantees. In response to management's request for comment,

the OIG reviewed the proposed revisions to LSC Performance Criteria, Performance Area 4, "Effectiveness of governance, leadership, and administration."

During the last reporting period the OIG provided detailed comments to LSC management, addressing the criteria for board governance, leadership, technology and infrastructure, financial administration, human resources, and overall management and administration. Our comments generally focused on strengthening fiscal oversight, operational and resource management, and information technology security.

During the current period LSC management accepted most of the OIG's recommendations and reported out to the LSC Board. LSC management anticipates issuing the revised criteria during the next reporting period.

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 two FOIA requests; we responded to both within the requisite timeframes.

Professional Activities and Assistance

The OIG participates in and otherwise supports various activities and efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), as well other inter-agency and professional groups. The IG serves as a member of the CIGIE Audit Committee, which focuses on government auditing standards and cross-cutting 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 5(a) of the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3 §5(a)(14)(B):

The last peer review of the OIG was conducted by the Office of the Special Inspector General for Afghanistan Reconstruction. Its report was issued on August 14, 2017.

TABLE I

Audit Reports, Other Reports, and Quality Control Reviews

Part A
Audit Reports

Report Title	Date Issued	Questioned Costs	Funds Put to Better Use	Unsupported Costs
Report on Selected Internal Controls – Legal Aid of Northwest Texas	12/18/2017	$0	$0	$0
LSC 2017 Fiscal Year Audit of the Corporation	3/05/2018	$0	$0	$0
Report on Selected Internal Controls – Statewide Legal Services of Connecticut, Inc.	3/26/2018	$0	$0	$0
Report on Selected Internal Controls – Puerto Rico Legal Services, Inc.	3/30/2018	$0	$0	$0

Part B
Other Reports

Report Title	Date Issued	Description
LSC OIG Grantee Site Vulnerability Assessment – Management Analysis Report	01/29/2018	Special report by a contractor for the OIG, presenting findings of vulnerability assessments of grantee computer networks, with recommended best practices for mitigating risks.

TABLE I

Part C
Quality Control Reviews

	IPA	Recipient	Date Issued
1	Grossman St. Amour CPAs PLLC	Legal Aid Society of Mid-New York, Inc.	10/02/2017
2	Cohen & Company, Ltd.	Community Legal Aid Services, Inc.	10/12/2017
3	Gomez, Fragoso & Associates, PC	Texas RioGrande Legal Aid, Inc.	10/12/2017
4	Coleman & Williams, LTD	Legal Action of Wisconsin, Inc.	10/18/2017
5	Rehmann	Legal Services of Northern Michigan, Inc.	10/18/2017
6	HeinfeldMeech	DNA-Peoples Legal Services, Inc.	11/06/2017
7	Gary McGee & Co., LLP	Legal Aid Services of Oregon	03/08/2018

TABLE II

Audit Reports Issued with Questioned Costs

	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	1	$32,614	$0
B. Reports issued during the reporting period	0	$0	$0
Subtotals (A + B)	1	$32,614	$0
C. For which a management decision was made during the reporting period:	0	$32,614	$0
(i) dollar value of recommendations that were agreed to by management	0	$32,614	$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 III

Audit Reports Issued with Funds to Be Put to Better Use

	Number of 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
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
For which no management decision had been made within six months of issuance	0	$0

TABLE IV

(A) Audit Reports Issued Before this Reporting Period for Which No Management Decision Was Made by the End of the Reporting Period

Report Title	Date Issued	Comments
Legal Aid Society of Eastern Virginia	9/27/16	The grantee partially responded to four recommendations and disagreed with taking corrective action for three recommendations. The OIG referred the seven outstanding recommendations to LSC management for resolution. LSC management worked with the grantee to ensure the necessary corrective action was undertaken. On March 18, 2018, LSC management was advised by the grantee that they had completed final actions to resolve the outstanding recommendations. Subsequent to the close of the reporting period, OCE completed its evaluation of the grantee's actions and advised the OIG that they recommended the recommendations be closed.
Neighborhood Legal Services Program of DC	3/28/17	The grantee was not responsive to two recommendations. The OIG referred two of the seven outstanding recommendations to LSC management for resolution. LSC management is working with the grantee to resolve the recommendations.

TABLE IV

(B) Audit Reports Issued Before this Reporting Period with Unimplemented Recommendations as of the End of the Reporting Period

Report Title	Date Issued	Findings Summary[1]	Comments
Legal Aid Society of Eastern Virginia	9/27/16	A, B, C, E	Corrective action taken. After close of the period, LSC management recommended closing all recommendations.
Legal Aid of Southeastern Pennsylvania	9/28/16	A	Corrective action in process.
DNA People's Legal Services	9/30/16	A, D, K, L	Corrective action in process.
Legal Aid Services of Oklahoma, Inc.	3/23/17	A, B, D, J	Corrective action in process.
Neighborhood Legal Services Program of DC	3/28/17	G	Corrective action in process. LSC management is working to resolve two of the seven remaining open recommendations.
North Mississippi Rural Legal Services, Inc.	7/10/17	A	Corrective action in process.
Legal Services of Southern Missouri	9/28/17	A, B, D, G, H, J, P	Corrective action in process.
Legal Aid Society of Northeastern New York, Inc.	9/29/17	A, J	Corrective action in process.

Legend:

A = Written Policies & Procedures	B = Disbursements	C = Contracting	D = Fixed Assets	E = Derivative Income
F = Credit Cards	G = Cost Allocation	H = General Ledger & Financial Controls	I = Client Trust Funds	J = Segregation of Duties
K = Internal Reporting & Budgeting	L = Accounting System Access	M = Vehicles	N = Job Descriptions	P = Payroll

[1]There are no quantified potential cost savings associated with these open recommendations.

TABLE V

Index to Reporting Requirements of the Inspector General Act

IG Act Reference*	Reporting Requirement	Page
Section 4(a)(2)	Review of and recommendations regarding legislation and regulations.	23
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	3-10, 16-20
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-10
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	31
Section 5(a)(4)	Matters referred to prosecutive authorities.	17, 21
Section 5(a)(5)	Summary of instances where information was refused.	None
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.	26
Section 5(a)(7)	Summary of each particularly significant report.	3-10
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs.	28
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	29
Section 5(a)(10)(A)	Summary of each audit issued before this period for which no management decision was made by the end of the period.	30
Section 5(a)(10)(B)	Audit reports with no establishment comment within 60 days.	None
Section 5(a)(10)(C)	Audit reports issued before this period with unimplemented recommendations as of the end of the period.	31
Section 5(a)(11)	Significant revised management decisions.	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	None
Section 5(a)(14)-(16)	Peer reviews.	25

Section 5(a)(17)-(18)	Statistical tables on investigations.	21-22
Section 5(a)(19)	Investigations involving senior employees where allegations of misconduct are substantiated.	None
Section 5(a)(20)	Instances of whistleblower retaliation.	None
Section 5(a)(21)	Attempts by the establishment to interfere with OIG independence.	None
Section 5(a)(22)	Specified matters closed and not disclosed to the public.	None

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

On October 1, 2017, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) announced the official launch of Oversight.gov. This new website provides a "one stop shop" to follow the ongoing oversight work of all Inspectors General that publicly post reports.

Like the other OIGs, at the Legal Services Corporation we will continue to post our reports to our own website, www.oig.lsc.gov, but with the launch of Oversight.gov, users can now 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. In addition, the site features a user-friendly map to find reports based on geographic location, as well as contact information for each OIG's hotline. Users can receive notifications when new reports are added to the site by following CIGIE's new Twitter account, @OversightGov.

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