

LEGAL SERVICES CORPORATION



Office of
Inspector General



Semiannual Report to the Congress
April 1, 2015 – September 30, 2015

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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 April 1, 2015, through September 30, 2015.

During this reporting period we performed a number of audits focused on the adequacy of LSC grantees' internal controls, particularly with respect to their financial operations. Our reports documented specific internal control and related issues and made recommendations for corrective action. The grantees agreed with over 92% of our recommendations and initiated or are planning responsive actions. The remaining recommendations were referred to LSC management for resolution.

We also completed a review of LSC's implementation of the Hurricane Sandy Disaster Relief Program. The review concluded that LSC did a commendable job in setting up an internal control system to ensure that awards were appropriately made and that grant funds were spent properly.

We began the fifth year of our Quality Control Review (QCR) initiative to provide enhanced oversight of the independent audits required annually of LSC grantees. During the period we issued six QCRs. We also initiated debarment proceedings against one IPA whose work was found via a QCR to be deficient.

In addition to following up with individual audit firms and grantees after each review, we provide an advisory memorandum for all of the independent auditors and executive directors, summarizing the results of the QCRs conducted over the preceding fiscal year, and identifying the principal exceptions and deficiencies found. These reports and the overall QCR process identify any systemic issues and help prevent the repetition of similar problems in future audits.

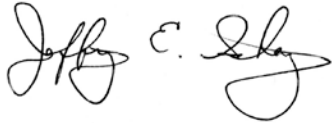
We opened 22 new investigations and closed 20 investigations during the reporting period. Investigations involved a variety of criminal and regulatory matters, including fraud, false claims, and the improper use of LSC funds.

We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. We maintained an active calendar of grantee outreach visits,

completing a total of nine fraud awareness briefings and six vulnerability assessments. We also initiated a proactive project to determine whether client trust funds are being adequately protected.

I wish to express my continuing 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,

A handwritten signature in black ink, appearing to read "Jeffrey E. Schanz". The signature is fluid and cursive, with the first name "Jeffrey" being the most prominent part.

Jeffrey E. Schanz
Inspector General
October 30, 2015

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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 developed by the OIG. Congress has also specified that the OIG has authority to conduct its own reviews of grantees.

LSC's 2015 appropriation (exclusive of OIG operations) was approximately \$370.6 million. The Corporation provides funding to 134 independent nonprofit legal aid programs throughout the nation and in U.S. 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 and may address more general or systemic issues.

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 the poor.

AUDITS

As discussed below, during this reporting period the OIG issued six audit reports with respect to grantee operations, one report reviewing LSC's implementation of the Hurricane Sandy Disaster Relief Program, and one memorandum report. At the conclusion of the period we had three projects underway and 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, the OIG reviewed 128 IPA reports, with fiscal year ending dates ranging from December 31, 2014, through January 31, 2015.

The OIG also issued six Quality Control Review (QCR) reports this period, under our QCR initiative. 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.

Community Legal Services of Mid-Florida

The OIG assessed the adequacy of selected internal controls at Community Legal Services of Mid-Florida (CLSMF). While many of the controls were adequately designed and properly implemented, some controls needed to be strengthened and/or formalized in writing.

The OIG reviewed the grantee's derivative income and determined that the written policies and procedures in the CLSMF Accounting Procedures Manual pertaining to the allocation of attorneys' fees did not match the practices in place, nor were they in accordance with the requirements contained in 45 CFR §1609.4(a). Although CLSMF's allocation process for rental income appeared to be adequate, the policies and procedures for recording and allocating rental income were not documented in the CLSMF Accounting Procedures Manual.

A review of the grantee's policies and procedures for contracting determined that, of the ten vendors selected for review, contract actions were not documented on eight vendors; two vendors did not have contracts on file; one vendor was paid for the contract outside of the specified timeframe; and one vendor's payment was in excess of the rates documented in the contract.

The review noted that the grantee's written policies and internal practices for credit cards were mostly comparable to those required by the Fundamental Criteria provisions of LSC's Accounting Guide. We found, however, that the grantee did not require prior approval for purchases made with its two building supply store credit cards, each of which had a high credit limit.

A review of the grantee's internal controls over fixed assets determined that some of the information required by Appendix II of the LSC Accounting Guide, such as useful life of fixed assets and check numbers used for purchase and disposition of fixed assets, was not included in the CLSMF Accounting Procedure Manual. In addition, the grantee's property records did not list all the elements required by the LSC Fundamental Criteria.

The OIG made eight recommendations:

- Two recommendations related to updating and revising the written policies and procedures for attorneys' fees to mirror LSC requirements, and documenting the policies and procedures for allocating rental income to include the requirements set forth by the LSC Accounting Guide.
- Three recommendations related to ensuring that the grantee's contracting practices adhere to LSC requirements, including providing complete documentation for a contract action, adequate support for competitively bid and sole source contracts, and maintenance of documentation in a central file; ensuring that all products and services obtained or performed per agreed-upon terms be supported by a valid formal agreement; and ensuring that all invoices paid to contractors are supported by a valid contract and conform to the specified timeframes and rates.
- One recommendation addressed the need for existing credit card approval policies to be applied to the two store credit cards, while permitting a streamlined procedure for small purchases.
- Two recommendations related to ensuring that the fixed asset policies and procedures in the grantee's Accounting Procedure Manual fully capture applicable recordkeeping requirements included in the Accounting Guide, and to updating property records to include all elements required by the LSC Fundamental Criteria.

Grantee management agreed with all eight recommendations contained in the report.

Grantee management revised several sections of CLSMF's Accounting Procedures Manual to reflect OIG's recommendations. Furthermore:

- CLSMF tightened its procedures on obtaining competitive bids, justifying sole source contracting, and recurring vendor contracts to include ensuring valid formal agreements are in place and ensuring that invoices are paid within the specified timeframes and rates;
- CLSMF tightened its approval policies on purchases made with the store credit cards; and,

- CLSMF updated its property records.

The OIG considers the corrective actions as having been responsive to all the OIG's recommendations and therefore considers all recommendations closed.

Legal Aid Bureau

The OIG assessed the adequacy of selected internal controls at the Legal Aid Bureau, Inc. (LAB), Baltimore, Maryland. We found that while many of the controls were adequately designed and properly implemented, some controls needed to be strengthened while other controls needed to be formalized in writing.

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

- Neither LAB's written policies and procedures for allocating attorneys' fees, nor its actual practice, were in compliance with the requirements contained in 45 CFR §1609.4(a).
- LAB's fixed assets policies and procedures did not list all elements required by the Fundamental Criteria provisions of the LSC Accounting Guide. Although LAB had a system in place to track IT equipment, the system did not reflect the actual inventory of the items tested. In addition, LAB's online record for tracking cellphones and other devices requiring a data plan was not up to date and did not list the correct users of the devices.
- LAB's contracting policy was not consistently applied in practice. The grantee awarded contracts without fully documenting the process used for each contract action, contracts were not always competitively bid, and one contract had no supporting documentation provided indicating how the contract was acquired or the specific services provided. In addition, contracts and related documentation were not centrally filed, some contracts did not have a written contract on file, one contract had payments not supported by the contract provided, and one contract had a conflicting written agreement.
- LAB had some disbursements that did not have adequate support. Some were not adequately supported because a contract did not exist, others did not have a purchase order, and one disbursement for government relations services did not have invoices sufficiently detailing the work performed.

- LAB's written policies and procedures on credit cards needed to be more detailed. Also, eight transactions tested did not have adequate support and/or lacked appropriate approval.
- LAB's cash receipts practices needed to be improved. Although required by LAB's own financial policies, there was no log used specifically for cash receipts; only a general mail log was in use and it was several months out of date.

The OIG made 13 recommendations:

- One recommendation was to revise the written policies and procedures for attorneys' fees to meet LSC requirements and comply with the governing regulation.
- Two recommendations related to strengthening controls over fixed assets: enhancing the fixed assets policies and procedures to fully capture all elements required by the Fundamental Criteria in the LSC Accounting Guide; and ensuring that updated information is maintained to aid in tracking fixed assets and electronics.
- Five recommendations related to strengthening controls over contracting: ensuring that contracting practices adhere to LAB's written contract policies and procedures, as well as LSC requirements; familiarizing staff with the LSC Accounting Guide contract criteria to ensure all requirements are met; creating a centralized filing system for all contracts; ensuring all products and services obtained and performed are supported by a valid formal agreement; and ensuring all invoices paid to contractors are supported by and consistent with a valid contract.
- Two recommendations related to strengthening controls over disbursements: ensuring invoices received from vendors provide sufficient detail of goods and/or services rendered; and ensuring all orders are initiated by a purchase order.
- Two recommendations related to strengthening controls over credit cards: enhancing written policies and procedures; and ensuring credit card transactions have the requisite approval at the appropriate level of management prior to making payments.
- One recommendation was to enforce the use of cash receipts logs as set forth in the grantee's Accounting and Financial Policies and Procedures Manual.

The OIG considers the proposed actions to address 12 of the report's 13 recommendations as responsive. (The grantee only partially agreed with one of the 12 recommendations; the OIG accepted the reasoning provided by grantee management for its partial acceptance.)

The recommendations will remain open until the OIG receives written notification that the grantee has updated and implemented its policies and procedures.

The grantee's comments with respect to the recommendation regarding attorneys' fees were not completely responsive. Although the grantee's suggested update of their policy was responsive, the proposed action did not demonstrate that attorneys' fees will be allocated based on time spent by the attorney on the case, in accordance with 45 CFR Part 1609. The OIG referred this recommendation to LSC management for review and resolution.

Legal Aid Foundation of Los Angeles

The OIG assessed the adequacy of selected internal controls at the Legal Aid Foundation of Los Angeles (LAFLA), related to specific grantee operations and oversight. While many of LAFLA's controls were adequately designed and properly implemented, some controls needed to be strengthened and others needed to be formalized in writing.

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

- LAFLA's Accounting Manual did not include written policies for attorneys' fees and rental income. The grantee's methodology for allocating attorneys' fees was not in accordance with 45 CFR §1609.4, and the OIG found an error in the grantee's allocation of interest income.
- LAFLA's salary advance policy states that no employee should receive more than four salary advances in a 12-month period, and no more than two in any six-month period; however a member of the executive staff received eight salary advances within a 10-month period. The grantee also did not have written policies or procedures requiring that salary advances for the executive director be approved by a member of the board of directors.
- LAFLA's ADP payroll system's user profiles did not provide adequate segregation of duties and access; all accounting staff were designated as "super-users," with full access and data entry/change capabilities.
- LAFLA did not maintain evidence that a biannual inventory of their property had been performed and that the results had been reconciled to the property records, as required by LSC. The grantee also could not provide a property listing that included all of the property fields detailed by LSC's Fundamental Criteria.
- LAFLA's executive director had approved her own credit card statements throughout the audit period.

- LAFLA's written policy on cost allocation lacked specific details pertaining to the methodology and process used in allocating both direct and indirect costs to the funding sources.
- LAFLA's written policies and procedures lacked detail as required by the LSC Fundamental Criteria, and six out of nine contracts tested by the OIG were not sufficiently documented.

The OIG made 14 recommendations:

- Three recommendations related to strengthening controls over derivative income: formalizing written policies and procedures related to attorneys' fees and rental income; ensuring that the methodology for allocating attorneys' fees is in accordance with LSC requirements; and ensuring that the proper monthly revenue amount is used to allocate interest income to the related funding sources.
- Two recommendations related to strengthening internal controls over employee benefits: ensuring all staff do not receive more than the allowed number of salary advances in accordance with LAFLA's written policy; and implementing a policy that all salary advances to the executive director be approved by a member of the board of directors.
- One recommendation was made to strengthen internal controls over payroll by ensuring ADP user profiles are set to provide adequate segregation of duties.
- Two recommendations related to strengthening controls over property: ensuring a physical inventory is conducted and documents the results of inventory counts and reconciliations to property subsidiary records and the general ledger; and ensuring adequate property records are maintained and include all elements required by the LSC Fundamental Criteria.
- One recommendation related to strengthening disbursement policies and procedures by ensuring the grantee follows its written credit card policy with respect to the executive director's transactions.
- Two recommendations related to cost allocation: establishing a fair, transparent, consistent, and systematic cost allocation methodology in accordance with LSC requirements; and updating LAFLA's current written cost allocation methodology.
- Three recommendations related to strengthening controls over contracting: ensuring all written contracting policies are updated and reflect the requirements

detailed in LSC's Fundamental Criteria; ensuring all relevant documentation is included and maintained in the grantee's contract file; and, if possible, reopening two contracts for public bidding to ensure that the grantee is receiving the best price and service available.

Grantee management agreed with 10 of the 14 findings and recommendations contained in the report. They disagreed with three of the findings and recommendations, and were unresponsive to one.

The OIG considers the grantee's planned actions responsive to the recommendations regarding derivative income, property, and cost allocation; responsive to one of the recommendations regarding employee benefits; and responsive to two of the recommendations regarding contracting. These recommendations will remain open pending written confirmation that the grantee's planned actions have been adequately completed.

Although grantee management did not agree with one recommendation regarding employee benefits and with the recommendation regarding disbursement policies, the OIG evaluated the information provided and actions taken by the grantee and considers these recommendations closed. The recommendation regarding payroll and ADP profiles will remain open until the grantee properly responds to the recommendation.

The OIG reported that the grantee was unresponsive with respect to the recommendation regarding contracting documentation and that this finding would remain open until the issue was adequately addressed.

Florida Rural Legal Services

The OIG assessed the adequacy of selected internal controls at Florida Rural Legal Services (FRLS), related to specific grantee operations and oversight. While many of FRLS's controls were adequately designed and properly implemented, some controls needed to be strengthened and others needed to be formalized in writing.

We identified the following areas that needed to be improved:

- FRLS's contracting practices did not fully adhere to LSC guidelines and, in some instances, to the grantee's own contracting policies. In addition, although the grantee's contracting policies relating to competition and approvals appeared adequate, they did not contain all the elements required by the Fundamental Criteria provisions of the LSC Accounting Guide.
- FRLS's property listing contained deficiencies: the property listings did not have all the components required by the Fundamental Criteria, and some items lacked tag numbers.

- FRLS's written policies and procedures on internal management reporting needed to be more detailed.
- FRLS did not have written policies or procedures regarding the allocation of rent and other income that could be classified as derivative income.
- FRLS did not have adequate practices and written policies in place to ensure that employees awarded student loan reimbursements use the funds to pay off their outstanding loan balances, nor do they adequately address the issue of who is eligible to receive this benefit.

The OIG made seven recommendations:

- One recommendation was to revise and enhance existing written contracting policies to ensure that they completely address the elements required by the Fundamental Criteria in the LSC Accounting Guide.
- Two recommendations related to strengthening controls over fixed assets: enhancing the property and equipment policies and procedures to fully capture all elements required by the Fundamental Criteria; and ensuring all inventory property and equipment items are properly tagged.
- One recommendation was to enhance the current written policy on internal management reporting to include: timing of reporting; types of reports to be prepared; analysis to be performed on the reports and by whom; and distribution and presentation of the reports and time frame for both.
- One recommendation was to establish written policies for rental and other income, providing a methodology so that such income is properly accounted for and allocated to the related funding sources.
- Two recommendations related to strengthening employee benefits policies and procedures.

Grantee management agreed with all the findings and recommendations contained in the report. They have either enhanced existing policies and procedures or established new policies and procedures in response to the OIG's report.

The OIG considers the corrective actions and the new and enhanced policies responsive to the OIGs recommendations. The recommendations will remain open pending written confirmation that the policies have been approved by FRLS's board of directors.

South Carolina Legal Services

The OIG assessed the adequacy of selected internal controls in place at South Carolina Legal Services (SCLS). While many of the controls were adequately designed and properly implemented, some controls needed to be strengthened and formalized in writing.

The OIG reviewed the grantee's disbursements and determined that while the written policies in the SCLS Accounting Manual were generally comparable to the LSC Fundamental Criteria, internal controls needed to be strengthened over disbursement processes, including those relating to purchase orders, travel authorizations, check requests, and disbursement approvals.

Our review of credit cards noted that although the grantee's written policies were generally in accordance with LSC's Fundamental Criteria, the spending limits for a store card and the policies and procedures regarding use of a bank credit card for bankruptcy filing fees were not documented.

The OIG also noted that the grantee needed to strengthen its controls over the use of gas cards. There was no process to track the use of gas credit cards or to reconcile purchases prior to approval for payment.

Review of contracting policies and procedures revealed that the grantee had written policies in place; however, contracting practices were not entirely adequate. There was no documentation of the process used to select janitorial service contracts and some of the janitorial services had not been duly rebid in accordance with the Fundamental Criteria.

The OIG made 12 recommendations:

- Five recommendations related to internal controls over disbursements:
 - o ensuring the proper use and approval of purchase orders prior to purchases;
 - o documenting employees' signatures on travel authorization forms for attestation of information;
 - o maintaining adequate supporting documentation for travel advances;
 - o enforcing policies and procedures requiring disbursements to be supported by check request forms; and
 - o ensuring all approvals are signed and dated.
- Four recommendations related to internal controls over credit cards:
 - o ensuring that the grantee's Accounting Manual is updated to document spending limits and the policies and procedures for the use of the bank credit card for bankruptcy filing fees;
 - o developing a gas credit card control system to ensure that the use of the gas card is properly accounted for and reconciled to the supporting receipts;

- o enhancing procedures to ensure that travel approval is obtained prior to the use of gas cards; and,
 - o updating the grantee's Accounting Manual to document the approval processes for vehicle usage for both short-term and long-term travel.
- Three recommendations related to internal controls over contracting:
 - o providing periodic evaluation of janitorial service contracts by re-competing contracts or conducting market research to determine that the best value is received;
 - o ensuring that contracting practices adhere to LSC requirements, such as documentation of contract action, documentation showing proof of competitive bids or reasons for sole sourcing of contract, and maintenance of documentation in a central file; and,
 - o ensuring that all contractor payments are supported by invoices documenting the deliverables.

Grantee management agreed with all 12 findings and recommendations in the report. Grantee management revised several sections of their current Accounting Manual in response to the OIG's recommendations. The revised Accounting Manual will be presented to their board of directors for approval.

The OIG considers the proposed actions to address all recommendations in the report as responsive. (Although the grantee only partially agreed with one recommendation, the OIG accepted the alternate control measure presented by the grantee.) All recommendations will remain open pending written confirmation that the proposed actions have been completed and the revised policies have been approved by the SCLS board of directors.

Acadiana Legal Services Corporation

The OIG assessed the adequacy of selected internal controls at Acadiana Legal Services Corporation (ALSC). We found that while many of ALSC's controls were adequately designed and properly implemented, some controls needed to be strengthened and/or formalized in writing.

The OIG found a total of \$969 in unallowable expenditures paid for with LSC funds, including flower purchases, a late fee, a gift purchase, and the purchase of restaurant gift cards. The OIG questioned these purchases and referred them to LSC management for further review and action.

We reported that ALSC's executive director normally approved his own travel expenses, without review or approval by a board member, and that there was no written policy in place regarding approval of the executive director's expenses.

We reported that ALSC's contracting practices could be improved. The grantee did not document each contract action, and supporting documents for contracts were not maintained in a central file. Four of the five contracts examined lacked written sole source justification. The grantee's written policies over contracting also lacked elements required by LSC's Fundamental Criteria, including those relating to contract documentation, identification of the types and dollar values of contracts that require competition, and obtaining and recording proper approvals for all contract actions.

We found that ALSC had nine outstanding checks more than 90 days old issued to grantee employees. Outstanding checks were listed on the grantee's bank reconciliation forms that did not include a date of issue, making it difficult to determine the length of the time the checks had been outstanding. There were no written policies or procedures for addressing checks outstanding for long periods of time.

ALSC did not have their approval policies and controls relating to general ledger transactions, journal entries, and bank reconciliations formalized in writing, nor were written policies in place relating to their practices over derivative income and attorney fees.

We reported that ALSC's written policies and procedures over the budgeting process were not adequately detailed in its accounting manual. Specifically, the manual did not address: how the budget is formulated and approved; the factors considered in preparing the budget numbers; the timing of the budgeting process; a mid-year budget adjustment process; or who is responsible for these actions.

We found that ALSC's executive director had exclusive use of a grantee-owned vehicle, but did not document the purposes for which he used the car. We noted that the use of an ALSC vehicle for commuting is a taxable benefit and should be authorized by the grantee's board. ALSC should have attributed a portion of the car usage as personal and recorded that part as a fringe benefit to the employee and reported the benefit to the Internal Revenue Service. Expenses related to personal use of the vehicle should have not been charged to LSC.

The OIG made 11 recommendations:

- Two recommendations related to strengthening disbursement policies and procedures, including ensuring that funds were expended in accordance with LSC regulations, and obtaining board member approval of the executive director's expenses.
- Two recommendations related to strengthening controls over contracting, including establishing policies and updating the accounting manual to meet documentation and other requirements of the Fundamental Criteria.
- Two recommendations related to improving financial and general ledger controls, accounting manual provisions, and controls over outstanding checks.

- One recommendation addressed the need for policies covering derivative income and attorneys' fees.
- One recommendation addressed the need to strengthen internal reporting and controls by establishing more detailed budgetary policies and practices.
- Three recommendations related to strengthening controls regarding the use of grantee vehicles.

Although ALSC management disagreed with three of the report's findings, they agreed with all the report's recommendations. The OIG considers the grantee's planned actions responsive to all 11 recommendations. Actions on the recommendations regarding disbursements, approval of the executive director's expenses, and one contracting finding were completed and we consider these recommendations closed. The remaining eight recommendations will remain open pending written confirmation that the proposed actions have been implemented.

Hurricane Sandy Disaster Relief Grant Program

The OIG conducted a review of LSC's implementation of the Hurricane Sandy Disaster Relief Grant Program. The objective of the audit was to determine whether an adequate internal control system was in place to ensure that grantee awards were appropriate and that funds were expended for their intended purpose. In addition, a sub-objective was to ensure that the Hurricane Sandy grant program was in compliance with applicable laws, regulations, and LSC policies.

To accomplish our objectives, we reviewed the internal controls used in applying the legal framework for the Hurricane Sandy program, awarding grants, monitoring grant performance, terminating grants, and complying with laws and regulations. We also reviewed the grantees selected to receive funding under this program to determine if the grants were used and accounted for in accordance with the requirements of the underlying act and the terms of the grant. Specific items reviewed included grantees' budgets and expenditures, activity reports, and supporting documentation.

Grants were awarded to four grantees:

Legal Services New York City - \$436,018
 Northeast New Jersey Legal Services Corporation - \$107,338
 South Jersey Legal Services, Inc. - \$151,300
 Ocean-Monmouth Legal Services, Inc. \$179,385

In accordance with the funding legislation, the grants were for the purpose of purchasing mobile resources and technology, and hiring pro bono volunteer coordinators necessary to provide storm-related legal services to the LSC-eligible client population in the areas affected by Hurricane Sandy.

We reported that overall, LSC did a commendable job in setting up and monitoring an internal control system to ensure that awards were appropriate and that funds were expended for the intended purpose. No recommendations were made in the report. Management noted that they initiated actions with the grantees to improve specific areas of recordkeeping, in accordance with our findings. A follow-up audit will be performed focusing on the close-out process for the grants.

Legal Aid of West Virginia – Memorandum Report

The OIG issued a supplemental report on our prior referral of questioned costs in connection with our June 2015 audit of Legal Aid of West Virginia. We referred an additional \$14,562 in questioned costs for four maintenance contracts for video-conferencing equipment. The costs were charged exclusively to LSC and not properly allocated across funding sources. As revised, the total questioned cost amount in connection with this audit was \$24,141.

Statistical Summary

Audits

Open at beginning of reporting period	7
Opened during the period	4
Audit reports issued or closed during reporting period	8
Open at end of reporting period	3

Recommendations to LSC Grantees

Pending at beginning of reporting period	113
Issued during reporting period	65
Closed during reporting period	45
Pending at end of reporting period	133

Recommendations to LSC Management

Pending at beginning of reporting period	1
Issued during reporting period	0
Closed during reporting period	1
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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA process. Our oversight activities 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 began the fifth year of our Quality Control Review (QCR) initiative, a comprehensive program under which IPA firms performing grantee audits are subject to review to determine whether the IPA's financial statement audit work, compliance audit work, and the associated review of internal controls over both financial reporting and compliance were 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 any additional audit work by the IPA under review.

This reporting period, following a competitive bidding process, the OIG re-awarded the QCR contract to an accounting firm for FY2014, the initial contract year, with options for contract extensions for up to three subsequent years.

As of the close of this reporting period, six QCRs for FY2014 had been conducted. One met standards with no deficiencies. Five met standards with one or more exceptions. Of the five meeting standards with exceptions, two required the IPA to perform additional work

and provide additional documentation to support their conclusions. Three QCRs identified deficiencies for which the OIG issued recommendations to the IPA to implement in future audits of the grantees.

During the last reporting period, 13 QCRs of the FY2013 financial statement audits identified deficiencies for which IPA were required to provide the OIG additional documentation supporting the work performed or to perform additional audit work. We evaluated the documentation and additional work submitted by five of the IPAs in the last reporting period. This reporting period, we evaluated the documentation and additional work submitted by the remaining eight IPAs. We determined that the deficiencies had been corrected by the IPAs for seven of the QCRs. For one, the IPA had not performed work sufficient to satisfy the recommendations in the QCR. The OIG required the IPA to perform additional work to correct the deficiencies.

The OIG rejected a FY2013 financial statement audit, which was issued in the reporting period before last. At that time, the OIG had found that the audit did not meet standards and requested that the IPA perform additional work and submit documentation supporting the work. The IPA submitted the information in this reporting period; the OIG's evaluation of the matter is ongoing.

During this reporting period, the OIG determined that the deficiencies in an IPA's work, initially identified during the course of a QCR, were so substantial as to warrant the initiation of a debarment action.

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 advises 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 significant findings reported by the IPAs as part of the grantee oversight process.

During the reporting period, the OIG reviewed a total of 128 IPA audits of grantees with fiscal year ending dates from December 31, 2014 through January 31, 2015. Of the 128 audits, 15 are related to sub-recipients of LSC. The audit reports and the findings reflect the work of the IPAs, not the OIG. These audit reports contained 64 findings. The OIG reviewed the findings and determined that 36 were either not significant, or that corrective action had already been completed. Of the remaining 28 findings, 23 were referred to LSC management during the period for follow-up; the remaining five were referred after the close of the period. The tables below present information on those findings.

Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2013, through September 30, 2014 and Reviewed During the Reporting Period.

Total Number of Findings Referred	23
Number of Findings with Corrective Action Accepted by LSC Management.....	0
Number of Findings Awaiting LSC Management Review	23

Types of Findings Referred to LSC Management for Follow-up

<u>Category</u>	<u>Number of Findings</u>
Financial Transactions and Reporting	16
Policies and Procedures.....	5
Missing Documentation	1
Segregation of Duties.....	1
 TOTAL	 23

INVESTIGATIONS

The OIG opened 22 cases during the period. These included 17 investigative cases, one Regulatory Vulnerability Assessment, and four Fraud Vulnerability Assessments. The investigations covered a variety of criminal and regulatory matters, including allegations of fraudulent travel claims, time and attendance fraud, misuse of payroll, and alleged violations of LSC statutes and regulations.

The OIG closed 20 cases during the reporting period. These included 14 investigative cases, four Fraud Vulnerability Assessments, and two joint Fraud and Regulatory Vulnerability Assessments.

Recovery Action

Questioned Costs Referral for Excessive, Unreported Compensation

An OIG investigation, initiated based on information developed in a proactive compensation review, identified apparently excessive compensation, unreported to LSC, paid by Southwestern Pennsylvania Legal Services (SPLAS) to its former executive director in 2014. (This individual continues to be employed by SPLAS in another capacity.)

As reported in our last Semiannual Report, a previous OIG investigation determined that the former executive director had received compensation significantly greater than that reported to LSC. This led to an LSC Management Decision determining that a portion of the total compensation paid to this individual during 2009-2013 was unreasonable and unnecessary, and disallowing over \$142,000 (LSC's proportional share) in costs. On appeal, the LSC president sustained that decision, adjusting the amount disallowed to \$139,190. LSC also imposed a special grant condition, effective January 1, 2015, barring SPLAS from using LSC funds to pay the former executive director's salary or other compensation, regardless of his position with the grantee.

SPLAS was not subject to the special grant condition in 2014. Our investigation determined that the former executive director's compensation for 2014, including payments for deferred compensation, salary continuation, and other payments or retirement contributions made on his behalf, was \$369,435. (This individual's total income from SPLAS for 2014 also included over \$640,000 in distributions from prior years' contributions by the grantee to his deferred compensation plan. This amount was considered in the previous LSC determination of questioned costs, and was therefore not included in the current referral.)

Despite requirements to report total compensation to LSC, SPLAS only reported compensation for this individual for 2014 of \$146,541 to LSC. SPLAS charged approximately \$72,000 of the former executive director's 2014 compensation to LSC grant

funds. The OIG's investigative findings were referred to LSC management for appropriate action.

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 provide fraud alerts and other information to help increase grantees' awareness of potential vulnerabilities.

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, why people commit 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. Employees often think that if there is any wrongdoing within their program, it must be minimal. 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.

LSC grantees are invited to request a FAB at a time and place convenient to them. We make every effort to accommodate requests as promptly as possible. We encourage attendance by all program staff and welcome the grantee's board members, outside auditors, and other interested parties.

Since initiating the FAB program in 2009, we have conducted 138 briefings for grantees 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 the National Legal Aid & Defender Association annual conference, and two webinars that reached multiple grantees.

An enhanced FAB program, which we introduced in 2013, consists of day-long visits to LSC grantees that include not only an all-staff FAB but also in-depth fraud prevention and fraud detection sessions with the executive director, principal financial officer and financial staff, outside auditor, and one or more members of the grantee's board of directors.

(typically including the chair of the audit committee). During these enhanced FABs, attendees are provided with materials describing LSC grantee-specific fraud indicators. OIG investigative staff members also meet with one or more grantee board members to discuss the board's role in preventing and detecting fraud, and highlighting problems that can arise when grantee boards do not provide adequate oversight of their programs or their executive directors.

During this reporting period, the OIG conducted nine FABs, with briefings provided for LSC-funded programs in California, Michigan (two), Minnesota (two), South Dakota (two), Virginia, and American Samoa.

American Samoa Legal Aid

American Samoa Legal Aid (ASLA) became an LSC grantee in 2015 and is the first LSC funded program in American Samoa since 2007. The OIG provided a FAB via a Skype video call to employees, members of the board of directors, and independent public accountants for ASLA. Attendees were also provided with OIG Hotline materials and materials that describe LSC grantee-specific fraud indicators.

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 the misuse of LSC grant funds.

Four FVAs were completed during the reporting period, covering grantees in South Dakota, California, Louisiana, and Virginia. The reviews did not disclose indicators of fraud but did identify several opportunities for improvement.

Regulatory Vulnerability Assessments

RVAs are conducted at LSC grantee offices. This initiative was triggered by our experience in investigating numerous 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 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.

Two joint Fraud and Regulatory Vulnerability Assessments were completed during this period for grantees in Indiana and California.

Presentation to LSC Management on Subgrant Review Project

The OIG gave a presentation to LSC management and staff on findings from the OIG's capstone report on our Subgrant Review Project (SRP). (We reported on the SRP in our last Semiannual Report. The SRP summarized findings on subgrantee compliance with fiscal and other requirements of 45 CFR Part 1627 (Subgrants and Membership Fees or Dues)).

The presentation detailed the issues identified during the SRP, including lack of adequate grantee fiscal oversight; minimal or nonexistent accounting policies; weak internal controls; a lack of understanding by the subgrantee regarding LSC restricted activities; and less than adequate fidelity bond coverage. The presentation concluded with recommendations for improving subgrantees' fiscal competence, including enhancing grantee oversight and strengthening reporting requirements during the subgrant application process.

Due in part to the OIG presentation, LSC management announced changes to the subgrant reporting and application process. The new requirements include an explicit acknowledgment in the subgrant agreement that the grantee has a duty to oversee the subgrantee's compliance with LSC regulatory and fiscal requirements. LSC will also require the submission of additional financial and regulatory documents by the subgrantee to LSC. As part of the application process, subgrantees and grantees must also explain the grantee's fiscal oversight measures, the subgrantee's internal control policies, and the grantee's oversight measures for subgrantees that conduct restricted activities.

Client Trust Fund Reviews

During this reporting period, the OIG initiated a proactive project to assess the risk of fraud involving grantees' client trust funds. Prior OIG investigations and Hotline complaints have shown that money received from clients and deposited in grantee client trust fund accounts can be vulnerable to employee theft and mishandling. The focus of the client trust fund review is to determine if grantees' policies and implementation practices are protecting and properly accounting for client funds.

Areas reviewed will include the handling of cash and money orders from receipt to deposit; the prompt posting of funds received; the distribution of funds to clients or opposing parties; and the escheat of funds to the state. In addition to surfacing any active problem areas, the review should enable us to identify best practices used in the field and communicate them to all grantees in order to better protect client funds.

Fraud Alert Issued on Conflict of Interest Policy

The OIG issued a Fraud Alert to executive directors and their boards of directors to make grantees aware of recent cases involving conflicts of interest and to encourage them to develop conflict of interest policies to help protect against improprieties involving key employees in their programs.

Recent OIG investigations highlighted instances of executive directors and fiscal officers entering into related party transactions involving members of their families, friends, and associates. These transactions allowed employees and/or their family members or associates to receive improper or questionable financial benefits. The Fraud Alert encouraged each grantee to develop a conflict of interest policy to impose a duty on employees to disclose the existence of any direct or indirect financial or material interest in a work matter due to a personal or business relationship, and ensure a process is in place for resolving any actual or potential conflicts.

The June 2015 issue of the “Single Audit Information Service,” a nationwide publication, included an article on our Fraud Alert, and quoted: “Impact to the grantee by not adopting a conflict of interest policy includes the possibility of losing its tax exempt status and funding, incurring fines, and attracting intense public scrutiny and negative publicity due to the occurrence of fraud.”

Beginning in 2016, LSC’s grant assurances will require each grantee to adopt a conflict of interest policy and to distribute the policy and provide appropriate training to all covered individuals. Grantees will also be required to document their compliance with these requirements.

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 59 Hotline contacts. Of these matters, nine were referred to LSC management for follow-up; four were opened as investigations; one was referred to the grantee for follow-up; and the remaining 45 were closed.

Statistical Summary

Investigative Cases

Open at the beginning of period	14
Opened during period.....	22
Closed during period	20
Open at the end of period	16

Prosecutorial Activities

Referrals for prosecutive consideration.....	2
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Monetary Results

Questioned Cost Referral.....	\$72,000
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OTHER OIG ACTIVITIES

Legislative, Regulatory, and Policy Reviews

Regulations

The OIG reviewed and commented on LSC's published proposed revisions to 45 C.F.R. Part 1610 (Use of Non-LSC Funds, Transfer of LSC Funds, Program Integrity) and 1627 (Subgrants and Membership Fees or Dues).

Defining Subgrants as Limited to Awards to Provide Legal Assistance

As described in the Noticed of Proposed Rulemaking, this proposal grew out of a 2010 OIG audit of LSC's Technology Initiative Grant (TIG) program (Audit of Legal Services Corporation's Technology Initiative Grant Program, Report No. AU-11-01, December 8, 2010). In that report the OIG found that LSC had not properly applied Part 1627, LSC's subgrant rule, when grantees provided TIG funds to third parties. Accordingly, the report recommended that LSC "initiate a process to amend LSC regulations to account for [the unique features of TIG grants]," and recommended that, if LSC wished to continue its practice of considering subgrants as limited to awards to third parties for carrying out part of the recipient's grant to provide legal services to eligible clients, it should codify that practice in its subgrant regulation.

The OIG commented that the proposed amendment, which would bring Part 1627 into conformity with LSC practice concerning payments to third parties not engaged in the provision of legal services, coupled with the improvements LSC had made to its requirements for third party contracting of TIG funds, would adequately address the findings leading to the OIG's rulemaking recommendation.

Timekeeping

LSC's proposed rule included a requirement that all subrecipients comply with LSC's regulatory timekeeping requirements (45 CFR Part 1635) for all LSC-funded subgrant activities, and specifically sought comment on this proposal. The OIG supported LSC's proposal, stating we believed it would provide needed clarity and enhanced accountability for the use of LSC funds.

We noted that LSC has consistently required timekeeping for the use of LSC funds by subrecipients, although it has not applied the particular timekeeping requirements prescribed in its timekeeping regulation. LSC promulgated its timekeeping regulation to implement the requirement in LSC's appropriations acts that recipients agree "to maintain records of time spent on each case or matter with respect to which the [recipient] is engaged...", and to improve accountability for the use of all funds of a recipient. Because the timekeeping requirement provides a basic accountability tool, the OIG recommended

that the requirement apply to all those receiving LSC funds to provide legal assistance, including subrecipients.

Rulemaking Agenda

The LSC Board annually considers what rulemakings it will undertake in the coming year. Last year, the OIG proposed several areas for rulemaking, some of which are still on the Board's rulemaking agenda. This year, the OIG recommended an additional rulemaking, concerning 45 CFR Part 1629 (Fidelity Bond Coverage). We recommended that the existing provision, requiring coverage only on those individuals who handle program funds or property, be revised so as to require that grantees carry fidelity bond coverage for all directors and employees of the program. This recommendation is intended to protect programs from bearing any loss caused by misappropriation of funds. LSC management concurred and made this joint recommendation to the Board.

LSC Policies

LSC Records Management Policy. During this reporting period, the OIG was asked to provide comments on the draft update to the LSC's Records Management Policy. We recommended that consideration be given to: retaining administrative building and service records for longer than three months, to support reviews of equipment and service contractors; establishing a general LSC email retention policy for emails not otherwise covered as "records"; and that the retention schedule for FOIA documents be made consistent with the federal government's schedule. Our recommendations were adopted in part and the policy was finalized during this reporting period.

LSC Purchasing and Contracting Protocols. Over recent years, the OIG has performed a series of reviews relating to acquisition management, and provided considerable input and detailed recommendations regarding proposed revisions to LSC's procurement policies and procedures. Following a comprehensive review, LSC completed and issued new Purchasing and Contracting Protocols. The new provisions incorporated many of the recommendations made by the OIG, and represent a significant improvement in the Corporation's procurement policies.

Debarment

During this period, the OIG issued a notice of proposed debarment under the provisions of 45 CFR Part 1641, proposing to debar an independent public accountant from providing audit services to LSC recipients. The action was based in part on the findings of a Quality Control Review. At the close of the reporting period, the debarment proceedings were ongoing.

Launch of the New OIG Website

During this reporting period, the OIG launched a new and improved website. The new platform was developed in support of our continuing goals of keeping Congress, the LSC Board of Directors, and all our stakeholders informed of our mission, work, and products. We believe the new site will help to increase awareness of vulnerabilities to fraud and abuse, and facilitate the reporting of potential problems.

The website was designed in keeping with the principal features of the federal government's Digital Government Strategy. It provides improved ease of use and searchability, and is optimized for access by mobile devices. We sought to tailor the site to the particular needs of our stakeholders. There is a dedicated area for the submission of reports by grantees' independent public accountants. The platform also provides for timely posting and easy access to audit, semiannual, and other reports, as well as the operation of a secured Hotline, email updates, and a Real Simple Syndication (RSS) feed. There is a direct link to LSC's own newly redesigned website to assist users in search of LSC information. We also worked to ensure our website was in compliance with standards set by Section 508 of the Rehabilitation Act of 1973, and accessible to those with disabilities.

The LSC OIG website is available at <https://oig.lsc.gov/>. Here is the look of our new home page:



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RECENT ANNOUNCEMENTS

The LSC OIG receives a CIGIE Award for the LSC OIG Fraud Prevention Program

On October 22, 2015, the Council of Inspectors General on Integrity and Efficiency (CIGIE) recognized the LSC OIG for our LSC OIG Fraud Prevention Program. Please read the **announcement** from Inspector General Jeffrey E. Schanz.

Fraud Alert

16-01 (Fraud Alert)- Client Trust Accounts

Report of Investigation

15-029 (ROI)- Subgrant Capstone Report

RECENT REPORTS

15-12 (IC) 619051 Acadiana Legal Services

15-11 (IC) 641030 South Carolina Legal Services

15-10 Audit Of The Legal Services Corporation's Hurricane Sandy Disaster Relief Grant Program

15-09 (IC) 610020 Florida Rural Legal Services

15-08 (IC) 321016 Legal Aid Bureau, Inc.

15-07 (IC) 805080 Legal Aid Foundation of Los Angeles.

15-06 (IC) 610010 Community Legal Services of Mid-Florida, Inc.

15-05 (IC) 805250 Legal Aid Society of San Diego, Inc.

15-04 (IC) 331050 Northeast New Jersey Legal Services Corp, Inc.

15-03 (IC) 436030 Community Legal Aid Services, Inc.

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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, we received five FOIA requests. All requests received within the reporting period were responded to 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.

During the period, OIG staff participated on a multi-agency team performing a pilot peer review of the Department of Interior's Inspections and Evaluations unit. This review constituted the third and final round of an initiative by the CIGIE Inspection and Evaluation Committee to launch a regular peer review program of IG inspection and evaluation activities.

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 Federal Housing Finance Agency, Office of Inspector General. Its report was issued on September 5, 2014.

TABLE I

Audit Reports and Quality Control Reviews Issued for the Period Ending September 30, 2015

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>
Report on Selected Internal Controls – Community Legal Services of Mid-Florida, Inc.	05/04/15	\$0	\$0	\$0
Report on Selected Internal Controls – Legal Aid Foundation of Los Angeles	05/27/15	\$0	\$0	\$0
Memorandum Report – Legal Aid of West Virginia	06/18/15	\$14,562	\$0	\$0
Report on Selected Internal Controls – Legal Aid Bureau, Inc.	07/07/15	\$0	\$0	\$0
Report on Selected Internal Controls – Florida Rural Legal Services	07/09/15	\$0	\$0	\$0
Hurricane Sandy Disaster Relief Program	08/20/15	\$0	\$0	\$0
Report on Selected Internal Controls – South Carolina Legal Services, Inc.	09/29/15	\$0	\$0	\$0
Report on Selected Internal Controls – Acadiana Legal Services Corporation	09/30/15	\$969	\$0	\$0

TABLE I

Part B

Quality Control Reviews

	<u>IPA</u>	<u>Recipient</u>	<u>Date Issued</u>
1	Barnes Dennig & Co., Ltd.	Legal Aid Society of Greater Cincinnati	9/4/2015
2	Barnes Dennig & Co., Ltd.	Legal Aid of the Bluegrass	9/4/2015
3	BDO USA, LLP	Alaska Legal Services Corporation	9/9/2015
4	Drees, Risky & Vallager, Ltd.	Anishinabe Legal Services, Inc.	9/18/2015
5	Dana F. Cole & Company, LLP	Legal Aid of Nebraska	9/28/2015
6	Drees, Risky & Vallager, Ltd.	Legal Services of Northwest Minnesota Corporation	9/28/2015

TABLE II

**Audit Reports Issued with Questioned Costs
for the Period Ending September 30, 2015**

	<u>Number of Reports</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period.	3	\$278,538	\$0
B. Reports issued during the reporting period	2	\$15,531	\$0
Subtotals (A + B)	5	\$294,069	\$0
C. For which a management decision was made during the reporting period:	2	\$268,959	\$0
(i) dollar value of recommendations that were agreed to by management	2	\$268,959	\$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	3	\$25,110	\$0
Reports for which no management decision had been made within six months of issuance	1	\$9,579	\$0

TABLE III

Audit Reports Issued with Funds to Be Put to Better Use for the Period Ending September 30, 2015

	<u>Number of Reports</u>	<u>Dollar Value</u>
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

**Audit Reports Issued Before this Reporting Period for
Which No Management Decision on Questioned
Costs Was Made by the End of the Reporting Period**

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	<u>Comments</u>
Legal Aid of West Virginia, Inc.	01/27/15	\$24,141	Questioned Cost amount was \$9,579 at the time of issuance. The amount was revised on 06/18/15.

**Audit Reports Issued Before this Reporting Period
with Open Recommendations
as of the End of the Reporting Period**

<u>Report Title</u>	<u>Date Issued</u>	<u>Comments</u>
Report on Selected Internal Controls – Legal Services of Northern Virginia, Inc.	9/30/11	LSC management is working with grantee to resolve all open recommendations.
Report on Selected Internal Controls – North Mississippi Rural Legal Services	3/30/12	Corrective action in progress.
Report on Selected Internal Controls – Texas RioGrande Legal Aid, Inc.	6/12/12	Corrective action in progress. Two recommendations closed this period.
Report on Selected Internal Controls – Inland Counties Legal Services, Inc.	8/06/12	Corrective action in progress. Still awaiting written notification that corrective action has been taken for recommendation # 1.
Report on Selected Internal Controls – Lone Star Legal Aid	1/15/13	Corrective action in progress.
Report on Selected Internal Controls – Community Legal Services	3/21/13	Corrective action in progress.
Report on Selected Controls – Georgia Legal Services Program	7/15/13	Corrective action in progress.
Report on Selected Internal Controls – Indiana Legal Services	9/30/13	Corrective action in progress.
Report on Selected Internal Controls – Central Virginia Legal Aid Society	9/30/13	Corrective action in progress.
Report on Selected Internal Controls – Land of Lincoln Legal Assistance Fndn.	3/24/14	Corrective action in progress.

<u>Report Title</u>	<u>Date Issued</u>	<u>Comments</u>
Report on Selected Internal Controls – Appalachian Res. & Defense Fund KY	3/26/14	Corrective action in progress.
Report on Selected Internal Controls – Central Jersey Legal Services, Inc.	5/06/14	Corrective action in progress.
Report on Selected Controls – Legal Services of Alabama, Inc.	6/09/14	Corrective action in progress. Four recommendations closed this period.
Report on Selected Internal Controls – Legal Services NYC	10/09/14	Corrective action in progress. One recommendation closed this period.
Report on Selected Internal Controls – Community Legal Aid Services	2/02/15	Corrective action in progress. Three recommendations closed this period.

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 legislation and regulations.	26-27
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	3-14, 20-21
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-14
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	36-37
Section 5(a)(4)	Matters referred to prosecutive authorities.	25
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.	32
Section 5(a)(7)	Summary of each particularly significant report.	3-14
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs.	34
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	35
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period.	36-37
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.	31

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

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