



May 26, 2010

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The Honorable Tom Harkin
Chairman
Committee on Health, Education, Labor and Pensions
United States Senate
731 Hart Senate Office Building
Washington, D.C. 20510

Dear Chairman Harkin:

The Office of Inspector General of the Legal Services Corporation (LSC) has completed its Semiannual Report to the Congress for the period October 1, 2009 to March 31, 2010. I am transmitting the Report to Congress as required by law, along with these management comments and additional information.

As our first communication to you as a newly organized Board, we wish to affirm our commitment to working in full cooperation with the Congress and the Legal Services Corporation Inspector General in ensuring adherence to the laws and regulations in the operation of the Corporation and the conduct of our grantees. On April 27, in testimony before the Subcommittee on Commercial and Administrative Law of the House Committee on the Judiciary, I testified that I share the goal of improving governance and accountability so that every dollar is well spent. With new membership and renewed dedication, the Board is committed to meaningful improvement in the organization's accountability and transparency.

The LSC Board of Directors concurs with the presentation of statistics in Tables I, II, III, and IV of the LSC OIG Semiannual Report for the period ending March 31, 2010.

We are pleased to note that the Audit of Selected Internal Controls at Legal Aid of NorthWest Texas was closed during the reporting period.

With respect to the new OIG audit report issued during the reporting period with recommendations made to LSC management, LSC has taken the following actions:

- Bay Area Legal Aid

The Office of Compliance and Enforcement (OCE) received the referral on April 6, 2010 and has written a follow-up letter to the program with a response due date of June 14, 2010.

With respect to audits that have been open since the last reporting period, progress is as follows:

- On the issue of classification of consultants as temporary employees, LSC is seeking a ruling from the Internal Revenue Service. The OIG will be kept fully and currently informed going forward to final resolution.
- On the Report on Selected Internal Controls Legal Aid and Defender Association, Inc.(LAD), the total amount of the cost that LSC disallowed was \$6,866.54. Regarding the separate matter of \$267,619.86 in information technology (IT) payments, LSC determined that while the payments were supported by adequate documentation, the circumstances that gave rise to the questioned cost proceeding were indicative of internal control weaknesses. Accordingly, LSC directed LAD in a November 16, 2009 letter to take certain corrective action on or before Dec. 31, 2009 and to report, in writing, to LSC on or before Jan. 15, 2010, confirming that it had taken the required corrective actions.

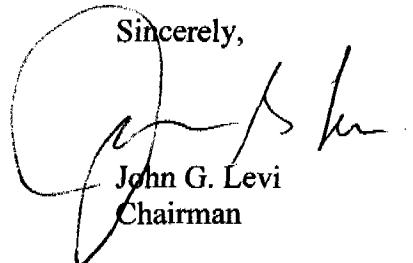
By letter dated Dec. 9, 2009, LAD provided a copy of the revisions to its accounting manual reflecting the corrective actions taken in response to LSC's Nov. 16 letter. By letter dated Dec. 15, 2009, OCE reviewed the revisions and found that they adequately addressed the Nov. 16 corrective actions.

A follow-up visit is planned by OCE for June 7-11.

I thank you and the Congress for the bipartisan support provided to LSC. Given the crisis created by the economic downturn and the loss in Interest on Lawyers' Trust Account funding, it is more important than ever to increase both public and private funding for civil legal assistance.

If you have any questions or desire further information, please contact John Constance, Director, Government Relations and Public Affairs, at 202-295-1611.

Sincerely,



John G. Levi
Chairman

LEGAL SERVICES CORPORATION



**Office of
Inspector General**



**Semiannual Report to the Congress
October 1, 2009– March 31, 2010**

www.oig.lsc.gov

**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, 2009 through March 31, 2010.

We continued to regard the review of internal controls at LSC-funded grantees as a high priority. We completed three such audits during the period. Although some specific issues were noted, overall we found the controls in place at each of the grantees reviewed this period to be generally adequate and effective. Additional internal control reviews are underway.

LSC's annual financial statement audit was completed by an independent public accounting firm, operating under contract to and subject to the general oversight of the OIG. The Corporation received an unqualified opinion, with no significant deficiencies or material weaknesses noted.

As part of our oversight role with respect to the grantee audit process, the OIG conducts quality assurance reviews of the work of selected grantees' independent public accountants. During the period we completed and issued four such audit service review (ASR) reports.

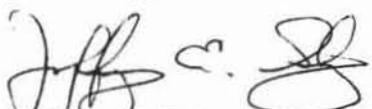
The OIG opened 27 new investigations, and closed 19 investigations during this reporting period. Convictions were obtained in two significant cases following OIG investigations: one case involved a former acting executive director of an LSC grantee, convicted of theft of over \$31,000 in federal grant funds; the other involved a former grantee employee, convicted of mail fraud for making over \$134,000 in fraudulent reimbursement claims.

We also continued to emphasize prevention and deterrence, with a variety of educational efforts, fraud awareness briefings, vulnerability assessments, and onsite work with individual grantees.

I am gratified at the contributions we have been able to make, and am committed to continuing to do all that we can to help improve and protect LSC's programs.

On a final note, I would like to extend my personal welcome to the new chairman and members of the Board of Directors, and to express my appreciation for the interest and support they have already shown for the work of the OIG. I look forward to working with them, and with the Corporation's president and staff, in helping LSC to effectively carry out its mission. I am also deeply appreciative to the Congress for its steadfast support of this office.

Sincerely,



Jeffrey E. Schanz
Inspector General
April 30, 2010

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OFFICE OF INSPECTOR GENERAL OVERVIEW

The LSC Office of Inspector General operates under the Inspector General Act of 1978, 5 U.S.C. App. 3. In 1988, Congress amended the IG Act and required LSC and about 30 other, mostly smaller, federally funded entities to establish independent Offices of Inspector General.

The OIG has two principal missions: (1) to assist management in identifying ways to promote economy and efficiency in the activities and operations of LSC and its grantees; and (2) to prevent and detect fraud and abuse. Thus, the OIG assists management in fostering effective operations, in identifying and overcoming obstacles to good program management, and in preventing future problems. The OIG also identifies and reports on current problems.

The OIG's primary tool for achieving these missions is objective and independent fact-finding, performed through financial and other types of audits, evaluations and reviews, and through investigations into allegations of wrongdoing. Its fact-finding activities enable the OIG to develop recommendations to LSC, Congress, and grantee management for actions that will correct problems, better safeguard the integrity of funds, improve procedures, and otherwise 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, conducted by independent public accountants, 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.

The OIG is headed by the Inspector General, who reports to and is under the general supervision of the LSC Board of Directors. The IG has broad authority to manage the OIG, including setting OIG priorities and activities, and to hire 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 the LSC Board of Directors and 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 has found that there are reasonable grounds to believe that a crime has occurred. The OIG is not an "arm" of the Congress, as is the Comptroller General, but is required by law to keep the Congress informed 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.

To be effective, the OIG works cooperatively with the Board and management of LSC, seeks their input prior to choosing topics for OIG review, and keeps them informed of OIG activities. 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 of legal services to the poor.

AUDITS

In this reporting period, the OIG issued three grantee audit reports, discussed below. The OIG provided oversight for the LSC Fiscal Year (FY) 2009 financial statement audit and transmitted the final audit report to the LSC Board of Directors. Work in progress at the end of the reporting period included an audit of LSC's Technology Initiative Grant program, as well as five grantee audits in the draft report stage and two grantee audits in the preliminary stage.

The OIG, in fulfilling its responsibility for overseeing the independent public accountant (IPA) audits performed at each grantee, reviewed 21 IPA reports received during the period and completed four Audit Service Reviews (ASRs). ASRs are designed to ensure that the work conducted by the IPAs is performed in accordance with the instructions issued by this office and meets applicable professional standards.

Audits of Internal Controls at Grantees

The OIG conducted a series of audits designed to assess internal controls used by grantees. For each of the audits described below, the OIG assessed the adequacy of internal controls related to specific grantee operations, including program expenditures, fiscal accountability, and compliance with selected LSC regulations. The audits evaluated controls and tested transactions to ensure that costs were adequately supported and allowable under the LSC Act and LSC regulations. In addition, the audits determined whether controls were properly designed to ensure compliance with the LSC Act and applicable LSC regulations.

Legal Aid Society of Cleveland

The OIG found that internal controls in place at Legal Aid Society of Cleveland were generally adequate. However, there were certain policies and procedures that needed to be formally documented. These policies and procedures related to contract awards and consultant agreements, use of the corporate credit card, salary advances, and budget preparation. Internal controls over compliance with specific LSC regulations were adequate with one exception. The grantee's method for charging costs for time spent on certain legislative and administrative activities did not assure that such activities were, in fact, paid for with non-LSC funds as required by 45 CFR Part 1612. Although internal controls over reimbursements and employee benefits were generally adequate and adhered to, the OIG did note one instance where payments to a contractor could not be independently evaluated because the payments were based on a verbal contract. Also, a proper position description was needed for the Controller.

Legal Aid Society of Cleveland agreed with the OIG's recommendations on establishing written policies and procedures, formalizing all verbal contracts to written documents, and developing a current job description for the Controller. The grantee disagreed with the OIG's description of how time is tracked for its legislative and administrative activities under 45 CFR Part 1612, but did agree to improve its procedures and systems. These recommendations remain open until the grantee has completed its corrective action.

Northwest Justice Project

The OIG found that overall, internal controls in place at Northwest Justice Project were adequate. Disbursements tested were adequately supported, allowable, and appeared to be properly allocated to LSC. However, the OIG found that written policies and procedures for awarding contracts and consulting agreements needed to be more detailed and more formally documented. Internal controls over compliance with specific LSC regulations were adequately designed. The grantee was adequately adhering to internal controls over reimbursements and employee benefits.

Northwest Justice Project accepted the OIG's recommendation and revised its Administrative Manual to incorporate more detailed written policies and procedures governing consultant contracting. This action was responsive and the recommendation is closed.

Bay Area Legal Aid

The OIG found that internal controls in place at Bay Area Legal Aid were generally adequate, but that some controls needed to be strengthened or formalized. Bay Area Legal Aid's internal controls over reimbursements and employee benefits were generally adequate and were followed. However, the grantee had not conducted a physical property inventory during the past four years. The grantee's own Accounting Manual and LSC's Accounting Guide for LSC Recipients (August 1997) require inventories to be taken every two years. In addition, the grantee's current Accounting Manual did not contain written policies and procedures for contracting and consultant agreements. Finally, Bay Area Legal Aid did not have a disaster recovery plan for its information systems.

The OIG recommended that a physical property inventory be taken at least every two years and the results of the physical inventory be reconciled with the accounting records. Further, the OIG recommended that the grantee's Accounting Manual be revised to incorporate formal written policies and procedures governing contracting and consultant agreements. The OIG also recommended that the grantee complete a written report, as required, to the Board of Directors supporting its annual Certification of Program Integrity to LSC

for 2009 and subsequent years. Finally, the OIG recommended that a disaster recovery plan for information systems be developed and formally implemented.

Bay Area Legal Aid stated in its response to the audit that it had completed all recommended actions, including that the inventory was conducted, properly reconciled, and documented; a formal written policy governing contracting and consulting agreements was developed; an Information Technology Systems Recovery and Business Continuity Plan was adopted and implemented; and a written report on program integrity was submitted to its Board of Directors and the Certification of Program Integrity provided to LSC.

The OIG found the grantee's actions were responsive to the recommendations with one exception. The grantee's new written policy governing contracting and consulting agreements was only partially responsive to the finding and recommendation. Specifically, the policy did not address documentation requirements for the contracting process, the circumstances and type of documentation required for sole source or noncompetitive bid contracts, and the dollar amount thresholds that would be applicable to a competitive bid process. The recommendation was referred to LSC management for resolution and remains open.

FY 2009 Corporate Audit

The FY 2009 LSC financial statement audit report was issued this reporting period and transmitted to the LSC Board of Directors. The Corporation's financial statement audit is conducted by an independent public accounting firm (IPA) under contract to and subject to general oversight by the OIG. The OIG reviewed the work of the IPA and found it in compliance with generally accepted government auditing standards. The *Independent Auditor's Report* stated that LSC's financial statements present fairly, in all material respects, the financial position of LSC as of September 30, 2009, and the results of its operations and changes in its fund balance for the year then ended. The auditor's *Report of Deficiencies in Internal Control Over Financial Reporting and Other Matters* did identify some control deficiencies, however these did not constitute significant deficiencies or material weaknesses.

Change in Accounting Standards. As indicated in the FY 2009 financial statement audit, LSC elected to follow accounting standards established by the Financial Accounting Standards Board (FASB), which is the source of generally accepted accounting principles (GAAP) for not-for-profit entities. Since 2002, LSC had followed accounting standards established by the Governmental Accounting Standards Board (GASB) for state and local governments. The change in accounting standards required that the LSC's beginning net assets be restated for the prior year. This action was taken based upon the recommendation of LSC's independent auditor.

Audit Reports

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Pending at beginning of reporting period.....	20
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Pending at end of reporting period.....	14

Recommendations to LSC Management

Pending at beginning of reporting period	11
Issued during reporting period.....	0
Closed during reporting period.....	9
Pending at end of reporting period.....	2

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 and Compliance Supplement, which incorporates some requirements of OMB Circular A-133.

While these audits are not performed by the OIG, the OIG does provide guidance to the IPAs and grantees and oversees the IPA process. The OIG's oversight of the IPAs consists primarily of two activities: the OIG (1) conducts a desk review of all IPA reports issued to grantees, and (2) conducts Audit Service Reviews. The purpose of both reviews is to identify significant IPA findings requiring follow-up by LSC management, ensure that the IPAs' work is conducted in accordance with the instructions issued by this office, and determine whether the work meets applicable professional standards.

Audit Service Reviews

ASRs are reviews of selected documentation supporting the conclusions expressed by IPAs in their reports. Reviews of supporting documentation are usually conducted at the office of the IPA. The OIG issued four such reviews this reporting period.

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. The desk reviews of IPA reports performed by the OIG serve to identify significant IPA findings requiring follow-up by LSC management. IPA audit reports are submitted to the OIG within 120 days of the close of each grantee's fiscal year. The OIG reviews each report and refers appropriate findings and recommendations to LSC management for follow-up. LSC management ensures that grantees submit 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 the grantee, LSC management advises the OIG and requests that the finding be closed. The OIG reviews management's request and decides independently whether it will agree to close the finding.

Review of Grantees' Annual Audit Reports: IPA Audit Findings

In order to provide more complete information in our semiannual reports to Congress, we include 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. The audit reports and the findings identified below reflect the work of the IPAs, not the OIG.

During the reporting period, the OIG reviewed 21 IPA audits of grantees with fiscal year ending dates from June 30, 2009 through September 30, 2009. These audit reports contained three findings. The OIG determined that one finding was not significant and closed the finding. The remaining two findings were referred to LSC management for follow-up. The tables below present information on those findings. The OIG also uses these reports to aid in planning for audits, investigations, and other reviews.

Summary of Findings for Grantee Audit Reports Reported in Grantee Financial Statement Audits with Fiscal Years Ending June 30, 2009 through September 30, 2009

Total Number of Findings Referred	2
Number of Findings with Corrective Action Accepted	
By LSC Management	0
Number of Findings Awaiting LSC Management Review	2

Types of Findings Referred to LSC Management for Follow-up

<u>Category</u>	<u>Number of Findings</u>
Weaknesses in Financial Transactions and Reporting.....	1
Questioned Cost Related to LSC's Loan Repayment	
Assistance Program	1

INVESTIGATIONS

The OIG opened 27 investigations during this reporting period. These included 14 criminal investigations, five compliance matters, and eight fraud vulnerability assessments. The criminal investigations included allegations of fraudulent claims, counterfeited checks, and thefts of cash and property from LSC programs. The compliance investigations included allegations of violations of LSC statutes and regulations involving matters such as retaliation and outside practice of law.

During the reporting period the OIG closed 19 investigations. These included nine criminal investigations, five compliance matters, and five fraud vulnerability assessments. The OIG also issued four Inspector General subpoenas in connection with an ongoing investigation.

Two convictions were obtained during the period, as described below.

Former Acting Executive Director Guilty of Theft of Grant Funds

On March 11, 2010, in conjunction with the filing of an information by the U.S. Department of Justice, the former head of the LSC grantee in American Samoa was convicted on a plea of guilty of theft of over \$31,200 in federal grant funds. David Wagner had served as acting executive director of U'una'i Legal Services Corporation, which had been an LSC grantee and the only nonprofit organization in American Samoa dedicated to providing free legal services to the poor and to victims of domestic violence, dating violence, stalking, and sexual abuse. In pleading guilty, Wagner admitted that from approximately November 2005 through December 2006, while serving as acting executive director, he embezzled and stole grant funds that were provided by LSC and the Department of Justice's Office of Violence Against Women. Sentencing is scheduled for July 12, 2010, in U.S. District Court in the Eastern District of Missouri. He faces a maximum sentence of ten years imprisonment, a \$250,000 fine, and \$31,292 in restitution. LSC ceased funding U'una'i Legal Services as a grantee in 2007, based in part upon audit findings of a lack of internal controls essential in the management of public funds.

Retaliation Cases

The OIG investigated claims from two LSC grantee employees alleging retaliation as a result of providing information to the OIG regarding investigative matters. The complaints were not substantiated. The OIG takes all claims of retaliation seriously. Where appropriate, grantee officials will be required to respond to such allegations. LSC Grant Assurances prohibit LSC grantee programs from threatening or taking any disciplinary actions in retaliation for any

person cooperating with or providing information to LSC or any other entity authorized to receive such cooperation or information. Failure to comply with the provisions of the Grant Assurances and to ensure employees are not retaliated against for reporting suspected wrongdoing could imperil funding.

Fraudulent Activity Involving Checking Accounts and Debit Card Use

During the reporting period, the OIG initiated investigations regarding various cases of frauds against LSC-funded programs involving fraudulent charges to program bank accounts. The fraudulent charges resulted from persons counterfeiting and cashing program checks, altering both the name of the payee and amount of checks written by programs, and fraudulently making a charge to a program debit card.

Several programs reported to the OIG that counterfeit checks had been negotiated against program checking accounts. In the present age of computer imaging and desktop editing, generating a counterfeit check has become a relatively easy endeavor. Anyone who has a copy of a legitimate check (including program vendors, employees, clients, or anyone who may be a payee on a program check) can generate a fraudulent check and attempt to negotiate that check. One program was charged for four counterfeit checks totaling \$2,278; another was charged for three checks totaling \$2,918; and a third program was charged for one check in the amount of \$2,758. In all three cases, the persons perpetrating the fraud managed to cash counterfeit checks. The counterfeit checks contained the correct routing number of the banks used by the programs and the correct account numbers for the checking accounts. When the fraud was identified, the victimized programs were credited for the fraudulent checks.

We also conducted two other investigations involving otherwise legitimate checks. The checks were written by programs but were subsequently altered and cashed. In one instance, a program wrote a \$28,404 check to a vendor in which the name of the payee was thereafter altered, made payable to another individual, and then deposited into that individual's account. Another program issued a \$25 check to an individual who altered the amount to \$250 and cashed the check. Again, when the fraud was identified, the victimized programs were credited for the fraudulent checks.

The OIG also opened an investigation into the improper use of a program's debit card. It was found that the card had been used to make a fraudulent purchase of an airline ticket. Upon discovery of the fraudulent purchase, the program notified the bank. The bank credited the program's debit card account for the amount of the fraudulent purchase, and the program immediately cancelled the card to prevent any future fraudulent purchases.

Unfortunately, several programs were the victims of check and debit card fraud; fortunately, prompt actions by the programs and the banks eliminated any

financial losses and prevented additional fraudulent transactions. Nonetheless, the programs had to expend considerable time and effort to address these events. The OIG is continuing to assist the affected programs through our investigative efforts to identify the methods used and the individuals responsible for committing the fraudulent transactions.

By contacting the OIG, the programs not only met their obligations to LSC under the LSC grant assurance requiring notification to the OIG of possible fraud, but also enabled the OIG to assist them, as well as other programs, to prevent similar occurrences in the future. The OIG has incorporated the best practices and lessons learned from these cases and others into our Fraud Awareness Briefings, described below.

Proactive and Preventive Initiatives

Fraud Awareness Briefing Program

The OIG is committed to reducing the opportunities for LSC grantees to fall victim to fraudulent activity. The OIG has taken a proactive approach in addressing this issue by presenting Fraud Awareness Briefings at LSC-funded programs, sharing with them ways to try to prevent fraud, including adhering to adequate internal controls and setting the right “tone at the top.”

Many individuals at LSC-funded programs do not deal with fraud prevention on a regular basis, and while aware that fraud occurs at all organizations on some level, they may not be aware of potential fraud that may be perpetrated at their own programs. Moreover, many at LSC-funded programs may mistakenly think that if there is fraud at all, it must be minimal. However, LSC-funded programs have been victimized by frauds involving hundreds of thousands of dollars.

The OIG Fraud Awareness Briefing includes a PowerPoint presentation covering topics such as who commits fraud, why people commit fraud, how fraud can be prevented, how fraud can be detected, and what to do if fraud is suspected. We also describe, without mentioning program names and staff, various types of fraud schemes perpetrated against LSC grantees. The briefing provides an opportunity for program staff to ask questions and make suggestions regarding ways to prevent fraud at their legal service program. We suggest to executive directors that all their staff, as well as board members and auditors, should attend since the presentation is beneficial to all.

LSC grantees are invited to request a Fraud Awareness Briefing at a time and place convenient to the grantee. Those identified for a briefing by the OIG are generally not chosen because of any particular concern about the program, though they could be. The grantees visited thus far have had very positive responses to the presentations. This reporting period the OIG conducted Fraud

Awareness Briefings at seven LSC-funded programs in Maine, Pennsylvania (two programs), Missouri (two programs), and Arizona (two programs).

In addition to our briefings at the LSC-funded programs, we were requested to conduct a presentation at the Management Information Exchange (MIE) Administrator's Conference held in January 2010 in Austin, TX. MIE offers regularly scheduled training for executive directors, senior and mid-level program managers, supervisors of legal work, fundraisers, and administrators of legal services programs. The Administrator's Conference was attended by legal services program staff whose duties included a full range of administrative, management, and compliance responsibilities. The OIG supports providing fraud awareness training to a wide array of grantee staff so the program may be better able to prevent and detect fraud.

Briefing Leads to Recovery of Improper Travel Claims

Following presentation of a Fraud Awareness Briefing to the staff of an LSC-funded program, which included discussion of past OIG investigations involving mileage reimbursement fraud, the program's executive director conducted a review of travel vouchers and found issues with mileage reimbursement claims submitted by the program's litigation director. An OIG investigation was initiated. Working in cooperation with the executive director it was determined that 80 mileage claims totaling \$4,345.72 in reimbursements were questionable. Among the issues identified were instances such as claimed mileage for court appearances when there were no court hearings for those dates of travel and claimed mileage reimbursements for court appearances that were handled by another program attorney.

When presented with the results of the travel reimbursement review, the litigation director resigned and agreed to reimburse the program for the entire amount of the questionable travel claims. The prompt actions taken by the executive director, with support from the OIG, in response to topics discussed during the briefing, proved highly effective and underscored the benefits of the ongoing fraud awareness program.

Fraud Vulnerability Assessments

During this reporting period the OIG completed five new fraud vulnerability assessments (FVAs). The FVAs consist of a focused document review in areas identified as weak or prone to abuse; a review of grantee internal control policies versus practices; and most often also include a fraud awareness briefing to the grantee's executive director and chief financial officer. These reviews help surface both existing and potential problem areas; improve managers' awareness of their fiscal responsibilities; and serve as a deterrent by making staff aware that all LSC funds are subject to review.

The five FVAs completed during this reporting period identified some irregularities, but found no indicators of ongoing fraud. During one FVA, our review indicated that the executive director incorrectly charged gas and food to LSC funds. These fund charges were later reversed and properly accounted for. At another review, the OIG determined that a program which had switched bank operating accounts earlier in the year had, several months later, still failed to close the original operating account, which had a balance of \$72,138.06. The OIG provided the program with several options to limit the opportunity for fraud.

Past OIG investigations at grantee sites involved funds stolen from petty cash and fraudulent activity involving travel and mileage expenses, credit card accounts, payroll advances, and grantee vendor accounts. Reviews of the programs affected often disclosed that while the nominal internal control policies appeared adequate for the size of the program, a breakdown in following those policies and applying the controls facilitated the embezzlements. By briefing grantee managers on indicators of and any potential vulnerabilities to fraud and embezzlement, the OIG hopes to assist them in detecting early warnings of such problems.

Preventing Laptop Computer Theft

Laptop theft continues to be one of the most frequent incidents reported by LSC grantees. During this six-month reporting period, the OIG received reports from four programs regarding laptop theft. In responding to reports of laptop theft, the OIG contacts the respective program in order to determine the circumstances surrounding the theft and obtain identifying information regarding the laptop (make, model, and serial number). We also ensure that a police report has been filed and determine if any confidential client or sensitive program information was stored on the computer.

As we noted during a prior reporting period, the OIG has developed guidelines regarding laptop theft prevention which were sent to all programs. Consolidating the information contained in the guidelines with the best practices developed in conjunction with programs who had suffered laptop thefts, the OIG prepared a tri-fold brochure entitled, "An OIG Guide for LSC-Funded Programs: How to Prevent Computer Laptop Theft or Loss." The brochure, displayed below, will hopefully serve as a practical guide for all LSC grantees as to steps they can take to help prevent laptop theft.



Laptop Theft and Loss Is a Serious Risk

A laptop can be *very expensive to replace*

- Replacing software and lost information costs even more

Laptops *often contain sensitive client and personal information*

- Information from a stolen laptop can place clients at risk by revealing confidential and privileged information and also could result in identity theft
- The theft or loss of a laptop *disrupts and adversely affects work product and output*
- Program management is responsible for assessing risk and establishing adequate controls to prevent loss or theft²



LEGAL SERVICES CORPORATION
www.lsc.gov



Please Remember to Contact the OIG

- Pursuant to LSC Grant Assurances, grantees must promptly contact the Office of Inspector General (OIG) about embezzlements and other thefts
- OIG has investigators and auditors on staff with considerable expertise in preventing, detecting, and investigating fraud
- Please remind your employees about the OIG Hotline at (800) 678-8868 or (202) 295-1670, email hotline@oig.lsc.gov or mail to P.O. Box 3699, Washington, DC 20027-0199
- Complainants' names will remain confidential, if desired
- You may also contact:
Mike Shiohama, Chief Investigator, by telephone at (202) 295-1655 or by email at ms@oig.lsc.gov
Tom Coogan, Assistant Inspector General for Investigations, by telephone at (202) 295-1651 or by email at tc@oig.lsc.gov

April 2010

AN OIG GUIDE FOR LSC-FUNDED PROGRAMS



How to Prevent Computer Laptop Theft or Loss



The OIG's Anti-Laptop Theft Brochure

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OIG

How to Prevent Computer Laptop Theft or Loss

Laptop Theft and Loss Is a Serious Problem

Laptop theft and loss is the *most frequently reported loss by LSC grantees*

- Even the FBI reportedly loses 3-4 laptop computers each month and they are unable to say in many instances whether information on the machines is sensitive or classified¹



OFFICE OF INSPECTOR GENERAL
www.oig.lsc.gov

Adequate Steps Should Be Taken to Prevent Theft or Loss

- Make sure you *record the make, model and serial number* of the laptop and store this information in a secure place
- Never leave a laptop in an unlocked vehicle*, even if the car is in your driveway; lock it in the trunk if it needs to be left in a car
- Keep laptops in carry-on bags while flying* to avoid loss or damage as checked baggage
- When going through security screening *keep an eye on your laptop*
- At hotels *lock your laptop in a safe place* if possible
- Secure shared laptops in a central location* when not in use³
- Do not leave laptops unattended* in places like unlocked conference rooms
- Restrict unauthorized access* to the office to deter laptop theft
- Install software that tracks your laptop* if stolen or lost
- Back up confidential information* in case the laptop is lost or stolen on a thumb drive or other detachable device
- Regularly purge unneeded data files* from your laptop
- Store all data on the server*, not laptops, and use the laptop as a "dummy" terminal

- Install encryption software* to protect sensitive information

Laptop Theft Should Be Reported

- Promptly *report thefts to the local authorities and LSC-OIG*
- Make sure you *have the make, model and serial number available* so police can file a complete report and enter the stolen laptop information immediately on the national crime information database
- If the laptop is stolen and contains confidential information, *assess whether you need to contact your clients or other persons* about the loss

Endnotes

¹http://tig.lsc.gov/TIG/Holly_RossLSC_Security.ppt#274,1, Security Matters

²In the past, OIG has reported that the cost of laptop computers does not always meet the dollar threshold for controlling more expensive capital assets, laptop computers can contain sensitive information, easily be put to personal use, and can cause a considerable burden on an organization when they need to be replaced. Controlling sensitive assets like laptop computers ensures that assets are adequately protected, increases the probability of recovering lost or stolen items, and reduces overall operating costs. Grantee management should review all assets and determine which assets should be controlled. <https://www.oig.lsc.gov/reports/0802/au08-02%20Legal%20Services.pdf>

³On several occasions the grantee did not know when the laptop was stolen because it had been checked out to be used for presentations and the theft was not discovered until someone else wanted to use it.

Hotline

The OIG maintains a Hotline for reporting illegal or improper activities by LSC grantees or Corporation staff. For this reporting period, the OIG received 59 Hotline contacts (compared to 72 the previous reporting period). Of these matters, 11 were referred to LSC's Office of Compliance and Enforcement for follow-up; 11 were opened as investigations; six are open pending further inquiry; and the remaining were closed after review and, where possible, response to the Hotline complainant.

The OIG has worked both to improve Hotline operations and to increase awareness of the Hotline throughout LSC and the grantee community. We can report that quantitatively overall OIG Hotline activity over the last 12 months has increased by over 79 percent as compared to the preceding 12 months (131 contacts, last 12 months vs. 73 contacts, prior 12 months). More importantly, qualitatively we have been receiving more calls resulting in investigations and fewer calls relating to requests for legal services, which previously represented the largest number of callers.

Ongoing Prosecutions

Former Grantee Employee Convicted of Fraud

On October 29, 2009, a former employee of an LSC grantee was convicted on a plea of guilty to four counts of mail fraud. An OIG investigation developed evidence that the subject charged the grantee for more than \$134,000 in fraudulent mileage and per diem reimbursement claims. The court set sentencing for April 29, 2010. (This matter was initially noted in our April 30, 2008 Semiannual Report, upon the subject's indictment.)

Former Grantee Employee Sentenced for Fraud

On November 12, 2009, a former grantee employee was sentenced to three months incarceration, followed by three years of supervised release, with the first five months under house arrest with electronic monitoring. The subject was also required to make full restitution. The sentencing followed the subject's April 23, 2009 conviction of mail fraud on a plea of guilty to one count of a 73-count indictment for stealing more than \$20,000 from the program and its clients. (This matter was previously reported in our October 30, 2009 Semiannual Report, upon the subject's conviction.)

INVESTIGATIVE CASES

Open at beginning of reporting period.....	18
Opened during reporting period.....	27
Closed during reporting period.....	19
Open at end of reporting period.....	26

PROSECUTORIAL ACTIVITIES

Referred for prosecution.....	0
Accepted for prosecution.....	0
Declined for prosecution.....	0
Indictments/Informations.....	1
Convictions.....	2

INVESTIGATIVE ACTIVITIES

Inspector General subpoenas issued.....	4
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LEGAL REVIEWS

Review of Proposed Legislation, Regulations and Policy

Pursuant to the IG's 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. The most significant instances of such review and comment during this reporting period are discussed below.

The OIG provided comments to members of the United States House of Representatives Committee on the Judiciary and its Subcommittee on Commercial and Administrative Law, as well as to members of the House Committee on Oversight and Government Reform, concerning H.R. 3764, the Civil Access to Justice Act of 2009. In addition, OIG legal staff met with congressional staff and provided them with proposed amendments to address specific concerns with the bill. The OIG's comments recognized that the bill proposed useful reforms that would strengthen LSC and its grantees, but also expressed concern that a number of its provisions would undermine the OIG's effectiveness in key areas. Specific areas of concern for the OIG include provisions that could weaken the OIG's oversight role in grantee audits; deprive LSC funds of their federal character for purposes of statutes governing the proper expenditure of federal funds; and limit the OIG's access to grantee records. The OIG noted the proposed changes contained in the bill were particularly troubling in light of recent GAO recommendations for improving and strengthening governance, oversight, and accountability at LSC and its grantees. The OIG further noted that, in these respects, H.R. 3764 would run directly counter to the intent of Congress, as expressed in the recently-enacted Inspector General Reform Act of 2008, to enhance the authority of Inspectors General to root out waste, fraud, and abuse in federally-funded programs.

In addition, the OIG participated in the annual update of LSC's grant assurances, submitting comments and suggested revisions to LSC management.

Litigation Activities

As noted in previous Semiannual Reports, in 2006 the OIG issued an interim report on the activities of California Rural Legal Assistance (CRLA), finding substantial evidence that CRLA had violated federal law and regulations governing LSC grantees. The OIG could not complete its investigation due to CRLA's refusal and/or failure to respond to an OIG subpoena seeking information relevant to the investigation.

In March 2007, the U.S. Department of Justice filed a subpoena enforcement petition in the United States District Court for the District of Columbia. In August 2008, following resolution of a number of procedural issues, the district court heard arguments on the petition. At the request of the district court, the parties subsequently agreed to attempt to resolve their differences through mediation. Although mediation proved unsuccessful, in April 2009 the LSC OIG submitted to the court additional briefing regarding a proposal it had developed to resolve all outstanding issues in the enforcement proceeding.

On October 6, 2009, the district court ordered the parties to brief the question of whether the case should be transferred to the Northern District of California. The OIG filed its response on November 2, 2009, and a reply on November 9, 2009. As of this date, the district court has not ruled on the order to show cause and the subpoena enforcement action remains pending as the parties await the court's ruling on all outstanding issues in the case.

Other Activities

During this reporting period, the OIG responded to five Freedom of Information Act requests. OIG counsel produced one formal legal opinion during the period.

OTHER OIG ACTIVITIES

Information Management and System Upgrades

The OIG completed comprehensive information needs analyses and computer network planning projects during the period. We are improving our information management capabilities and upgrading aging IT systems as part of an overall effort to improve our ability to perform our mission and more effectively serve our stakeholders. Several network upgrades were completed, including server upgrades for the firewall, email, file, and database server functions.

Professional Assistance

The OIG participates in and supports varied activities and efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The OIG is actively participating in the CIGIE Hotline Working Group. We responded to a number of CIGIE surveys, including a survey by the CIGIE Inspection and Evaluation (I&E) Committee, updating its study of the characteristics of I&E operations within the federal OIGs. The last survey, in 2007, found the I&E community is highly diverse and works in unique ways to improve the management and operations of federal agencies. The LSC OIG recently established an evaluations group, currently comprised of two professional staff members working as part of the OIG's Management and Evaluations unit. Additionally, the OIG routinely responds to requests for information or assistance from other OIGs.

GAO Support and Coordination

During the period, GAO continued conducting its third review of LSC operations in the last three years. The OIG has coordinated with and provided support and assistance to GAO in the conduct of each of these reviews.

TABLE I

AUDIT REPORTS ISSUED

for the Period Ending March 31, 2010

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	<u>Funds Put to Better Use</u>	<u>Unsupported Costs</u>
FY 2009 LSC Corporate Audit ¹	01/21/10	\$0	\$0	\$0
Reports on Grantee Internal Controls:				
Legal Aid Society of Cleveland	11/16/09	\$0	\$0	\$0
Northwest Justice Project	03/30/10	\$0	\$0	\$0
Bay Area Legal Aid	03/31/10	\$0	\$0	\$0

AUDIT SERVICE REVIEWS ISSUED

for the Period Ending March 31, 2010

Recipient	IPA	Date Issued
Colorado Legal Services	Jaspers + Hall	02/25/10
California Indian Legal Services	Harrington Group	03/02/10
Puerto Rico Legal Services	Jose L. Cardona & Co.	03/30/10
Legal Aid Foundation of Los Angeles	Harrington Group	03/30/10

¹ Conducted by an independent public accounting firm, under the general oversight of the OIG.

TABLE II
Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 2010

	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the reporting period.	3	\$582,025	\$0
B. Reports issued during the reporting period	0	\$0	\$0
Subtotals (A + B)	3	\$582,025	\$0
LESS:			
C. For which a management decision was made during the reporting period:	3	\$582,025	\$0
(i) dollar value of recommendations that were agreed to by management	3	\$221,149 ²	\$0
(ii) dollar value of recommendations that were not agreed to by management	3	\$361,689	\$0
D. For which no management decision had been made by the end of the reporting period	0	0	\$0
E. Reports for which no management decision had been made within six months of issuance	0	0	\$0

² While reviewing OIG-referred questioned costs at Legal Aid and Defender Association, LSC management questioned an additional \$812 of costs which were ultimately disallowed.

TABLE III**Audit Reports Issued with Funds to Be Put to Better Use
for the Period Ending March 31, 2010**

	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
LESS:		
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
F. Reports 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 Was Made By The End Of The Reporting Period

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	
FY 2008 LSC Corporate Audit	01/28/09	\$0	LSC management has requested a ruling from IRS on whether individuals were properly classified as independent contractors rather than temporary employees. The recommendation will remain open until the ruling is received from IRS.
Audit of LSC's Consultant Contracts	07/07/09	\$0	Same finding as FY 2008 Corporate Audit report listed above. This recommendation will remain open until the ruling is received from IRS.
Report on Selected Internal Controls Legal Aid and Defender Association, Inc.	02/05/09	\$273,054	Questioned cost proceedings have been completed by LSC. LSC upheld \$6,867 in questioned costs. However, recommended corrective actions have not been completed. An LSC staff team has planned a visit to the grantee to resolve outstanding recommendations.

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	
Report on Selected Internal Controls California Indian Legal Services	03/27/09	\$79,254	Questioned cost proceedings have been completed by LSC. LSC upheld \$25,760 in questioned costs. Follow up audit by the OIG on this report is in progress. Final determination on closing recommendations will be made at end of OIG's follow up audit.
Report on Selected Internal Controls Legal Services New York City	12/11/08	\$0	Grantee management has completed design of a new allocation methodology. However, the new system has not yet been fully implemented. Recommendation to remain open until system is fully implemented.

TABLE V

Index to Reporting Requirements

of the Inspector General Act

IG ACT REFERENCE*	REPORTING REQUIREMENT	PAGE
Section 4(a)(2)	Review of legislation and regulations	17
Section 5(a)(1)	Significant problems, abuses, and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	23
Section 5(a)(4)	Matters referred to prosecutive authorities	16
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	20
Section 5(a)(7)	Summary of each particularly significant report	None
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	21
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	22
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	23-24
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None

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



OFFICE OF INSPECTOR GENERAL HOTLINE

IF YOU SUSPECT

**FRAUD INVOLVING LSC GRANTS OR OTHER FUNDS
WASTE OF MONEY OR RESOURCES
ABUSE BY LSC EMPLOYEES OR GRANTEES
VIOLATIONS OF LAWS OR LSC REGULATIONS**

PLEASE CALL OR WRITE TO US AT

**PHONE 800-678-8868 OR 202-295-1670
FAX 202-337-7155
E-MAIL HOTLINE@OIG.LSC.GOV
MAIL P.O. BOX 3699
 WASHINGTON, DC 20027-0199**

**UPON REQUEST YOUR IDENTITY WILL BE KEPT CONFIDENTIAL.
REPORTS MAY BE MADE ANONYMOUSLY**