



November 23, 2010

The Honorable Tom Harkin  
Chairman  
Committee on Health, Education, Labor and Pensions  
United States Senate  
644 Dirksen Senate Office Building  
Washington, DC 20510

**President**  
Victor M. Fortuno

**Board of Directors**  
John G. Levi  
Chicago, IL  
*Chairman*

Martha Minow  
Cambridge, MA  
*Vice Chair*

Sharon L. Browne  
Sacramento, CA

Robert J. Grey, Jr.  
Richmond, VA

Charles N. W. Keckler  
Arlington, VA

Harry Korrell  
Seattle, WA

Victor B. Maddox  
Louisville, KY

Laurie Mikva  
Evanston, IL

Fr. Pius Pietrzyk, OP  
Zanesville, OH

Julie Reiskin  
Denver, CO

Gloria Valencia-Weber  
Albuquerque, NM

Dear Chairman Harkin:

The Office of Inspector General (OIG) of the Legal Services Corporation (LSC) has completed its Semiannual Report to the Congress for the period April 1, 2010 to September 30, 2010. I am transmitting the Report to the Congress as required by law, along with this additional information by the LSC Board of Directors, as head of the establishment.

First of all we would like to thank you for your leadership in the Senate confirmation process for our new Board of Directors. On September 29, the Senate confirmed our last four nominees, Harry Korrell III, Joseph Pius Pietrzyk, Julie A. Reiskin and Gloria Valencia-Weber. With a full eleven-member Board, we held our first meeting in Louisville, Kentucky on October 18 and 19, and began to set the direction for the year ahead. I can assure you and your colleagues that this is a capable team of Directors who understand both the importance of the mission and the necessity for proper stewardship of the Federal dollar.

Congress entrusts LSC with a dual mission: to promote equal access to justice and to provide high-quality civil legal assistance to low-income Americans. In fulfillment of that mission, LSC funds 136 nonprofit programs with 918 offices serving every state in the nation, as well as the U.S. territories.

LSC management reports the implementation and testing of new policies and procedures in response to all of the 2007 recommendations of the Government Accountability Office (GAO) regarding governance, oversight, and internal controls at LSC. As of this writing, implementation of fifteen of the seventeen recommendations made by GAO to the Corporation have been reviewed and accepted by GAO as completed. The remaining two items are expected to be completed by December 2010. The Board will be working with the management of LSC to ensure ongoing adherence to all associated policies and procedures.

The GAO issued a third report in June 2010 regarding the Corporation's internal controls over grant awards and grant program effectiveness. LSC Management accepted all 17 recommendations and submitted a written response to the draft report which was included in GAO's final published report. LSC has already implemented a number of the recommendations and has an action plan with deadlines for completing the remaining items. We look forward to working with the GAO to complete all the recommendations to their satisfaction in the near future. We assure you that our Board will continue to oversee the implementation of recommendations contained in the report.

The Semiannual Report to the Congress for the period April 1, 2010 to September 30, 2010 that we are transmitting today references the report of an OIG audit of Capital Area Legal Services Corporation (CALSC) of Baton Rouge, LA. The final audit was issued on September 27, 2010 and referred to LSC management for further investigation and action. Since then, LSC management met with the Board Chair and members of the Executive Committee of CALSC, commenced on-site work by Office of Compliance and Enforcement (OCE) staff to review CALSC's progress in implementing the OIG's recommendations and to conduct additional on-site investigation regarding other matters raised by the OIG, and commenced formal Questioned Costs proceedings against CALSC. The Board is closely monitoring progress on this matter and will ensure that the Corporation keeps the Congress fully and currently informed.

The LSC Board of Directors concurs with the presentation of statistics in Tables I, II, III, and IV of the Report. In addition, pursuant to 5 U.S.C. App.3 §5(b)(2)(C)(i), the Corporation reports that at the beginning of this reporting period a total of \$221,148.72 identified in OIG audits have been disallowed and have been either collected by LSC or not charged to LSC funds.

Regarding 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 has received a preliminary ruling from the Internal Revenue Service. At a closed session meeting of the LSC Board of Directors on October 19, 2010, the Board was briefed on this matter and took action to initiate appropriate corrective measures.
- On the Report on Selected Internal Controls: Legal Aid and Defender Association, Inc., OCE conducted an onsite Case Service Report/Case Management System Review during the week of June 7-11, 2010. During the visit, fiscal review again confirmed that the program had ceased using LSC funds to pay for IT consultant contracts. The OIG was informed of the results of the onsite review on October 27, 2010.

- On the Report on Selected Internal Controls: California Indian Legal Services (CILS), the new accounting manual completed by CILS and transmitted to the OIG completes management's required documentation. We await comment by the OIG on the sufficiency of the manual.
- On the Report on Selected Internal Controls: Legal Services New York City, the OIG was notified by the Director of OCE in an email of October 27, 2010 that we have confirmed that the program is utilizing the proper allocation formula and the matter may be closed.

I want to take this opportunity to thank you and the Congress for your ongoing support to LSC. We take our responsibilities very seriously as stewards of both the principle of equal justice and of the funds appropriated to help insure that principle is preserved in our nation.

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

Enclosure

cc: Jeffrey Shanz, LSC Inspector General

# **LEGAL SERVICES CORPORATION**



**Office of  
Inspector General**



**Semiannual Report to the Congress  
April 1, 2010 – September 30, 2010**

[www.oig.lsc.gov](http://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 April 1, 2010 through September 30, 2010.

We continued to regard the review of internal controls at LSC-funded grantees as a high priority. We had seven grantee audits underway as the reporting period came to a close, as well as an audit of a major LSC grant program. An audit completed during the period at one grantee disclosed the need for significant improvements in its controls and processes. The audit found more than \$318,000 in questioned costs, including substantial questioned costs associated with the executive director's activities. The audit also reported that the grantee may be subject to liability to the IRS for not properly reporting fringe benefits, and to the state for not properly handling client trust funds.

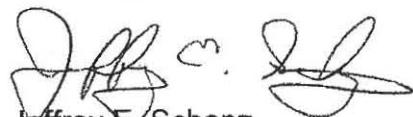
The OIG opened 21 new investigations, and closed 22 investigations during the reporting period. Three convictions were obtained in significant cases following OIG investigations. In one case the former finance chief of an LSC grantee was convicted of theft of federal grant funds after stealing more than \$1 million from the grantee using fraudulent procurement and kickback schemes. An outside vendor with whom he perpetrated the fraud was also convicted. In another case, a grantee's former bookkeeper was convicted after embezzling over \$188,000 in grantee funds. Both these cases involved trusted, long-tenured employees of the respective grantees.

To help prevent fraud, we are pursuing a variety of outreach and educational initiatives in an effort to heighten grantees' awareness of potential vulnerabilities. We have conducted fraud awareness briefings, vulnerability assessments, and onsite work with individual grantees. In all our activities, we have sought to emphasize prevention and deterrence.

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 members of LSC's Board of Directors, and to express my appreciation for the interest and support the Board has shown for the work of the OIG. I am also 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".

Jeffrey E. Schanz  
Inspector General  
October 29, 2010

## TABLE OF CONTENTS

OFFICE OF INSPECTOR GENERAL OVERVIEW .....	1
AUDITS .....	3
Capital Area Legal Service Corporation, Baton Rouge, LA .....	3
Oversight of IPA Audits .....	6
Independent Audits of Grantees.....	6
Desk Review of IPA Reports .....	6
Audit Service Reviews .....	6
Follow-up Process.....	7
Review of Grantees' Annual Audit Reports: IPA Audit Findings.....	7
Summary of Findings for Grantee Audit Reports Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2009 through March 31, 2010.....	8
Types of Findings Referred to LSC Management for Follow-up.....	8
INVESTIGATIONS .....	9
Former Finance Chief Pleads Guilty to Stealing Over \$1 Million.....	9
Former Bookkeeper Convicted of Theft of Grant Funds.....	9
Former Paralegal Sentenced for Fraudulently Claiming Over \$134,000 for Phony Travel .....	10
Improper Use of Grantee Funds by Former Executive Director .....	10
Proactive and Preventive Initiatives.....	10
Fraud Vulnerability Assessment Identifies Control Weaknesses.....	10
Fraud Awareness Briefings .....	11
Preventing Laptop Computer Theft .....	12
Hotline .....	12
OTHER OIG ACTIVITIES.....	15
Review of Proposed Legislation, Regulations and Policy.....	15
Congressional Requests .....	16
Litigation.....	17
Management Information Memorandum .....	17
Freedom of Information Act.....	18
GAO Support and Coordination .....	18
Professional Assistance .....	18

APPENDIX - Peer Reviews.....	19
TABLE I - Audit Reports Issued for the Period Ending September 30, 2010 .....	20
Audit Service Reviews Issued for the Period Ending September 30, 2010 ..	20
TABLE II - Audit Reports Issued with Questioned Costs for the Period Ending September 30, 2010.....	21
TABLE III - Audit Reports Issued with Funds to Be Put to Better Use for the Period Ending September 30, 2010.....	22
TABLE IV - Audit Reports Issued Before This Reporting Period For Which No Management Decision Was Made By The End Of The Reporting Period .....	23
TABLE V - Index to Reporting Requirements of the Inspector General Act .....	25

## **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 identified during our field work activities.

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 LSC management, its 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 one grantee audit report, discussed below. Work in progress at the end of the reporting period included an audit of LSC's Technology Initiative Grant program for which management comments have been received and are being evaluated, as well as three grantee audits in the draft report stage and four grantee audits in progress.

The OIG, in fulfilling its responsibility for overseeing the independent public accountant (IPA) audits performed at each grantee, reviewed 98 IPA reports received during the period and completed one audit service review (ASR). 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.

### **Capital Area Legal Service Corporation, Baton Rouge, LA**

The OIG conducted an audit of the Capital Area Legal Services Corporation (CALSC) to determine whether selected CALSC expenditures were properly charged to LSC funds, whether the accounting treatment of certain transactions was proper, and to assess the adequacy and effectiveness of related internal controls.

The OIG's audit found that CALSC needed to make significant improvements in its processes to ensure that costs charged to LSC funds were allowable and properly supported, and that transactions were correctly recorded. As a result of CALSC's failure to ensure that costs were allowed and properly supported, the OIG questioned \$318,768 in costs charged to LSC funds and referred the questioned costs to LSC management for action.

Of the total questioned costs, the OIG found that CALSC did not maintain adequate supporting documentation for \$238,190 in expenditures charged to LSC funds. These expenditures included \$11,462 for the Executive Director's meals at a private club and local restaurants; \$78,555 in costs associated with the Executive Director's leased vehicle and gasoline expenses; \$3,527 for travel and related costs; and \$144,646 for consultants. The OIG identified an additional \$80,578 (the balance of the \$318,768) in transactions that were improperly charged to LSC funds. These transactions dealt with rental charges to LSC funds for a building that CALSC owns and an insurance reimbursement for auto repair which was not credited to LSC funds even though the repair was initially paid with LSC funds.

In addition to the questioned costs, CALSC may also be liable for additional payments to the Internal Revenue Service (IRS) for not properly reporting employee fringe benefits. Because CALSC permitted its leased vehicles to be used for personal use, it may have violated IRS regulations by not reporting

leased vehicle costs as employee fringe benefits in the absence of appropriate usage records documenting personal versus business use. CALSC may also be subject to sanctions by the State of Louisiana for not properly handling client trust funds; it failed to remit to the State dormant client trust fund accounts, some over 20 years old, as required under Louisiana law.

The OIG also found that CALSC did not fully document in its Financial Manual the method used to allocate costs to LSC funds and could not explain the numerous adjusting entries made at the end of the year. This adversely impacted the OIG's ability to make a definitive determination of the propriety of some charges to LSC funds.

The OIG made 21 recommendations to strengthen the internal controls over CALSC operations and to correct specific issues identified. The OIG recommended that documentation requirements for all types of transactions be better defined, the cost allocation methodology be fully documented, proper approvals be obtained from LSC as required by LSC regulations, and that CALSC fully comply with IRS regulations pertaining to employee fringe benefits and with State requirements applicable to client trust funds.

CALSC accepted the OIG's recommendations to make significant improvements in its processes to ensure that costs are allowable and properly supported and that transactions are correctly recorded. CALSC further indicated that it will work with its accountant, auditor, and Board of Directors to ensure that proper accounting practices are continued and/or implemented. However, CALSC disagreed with the finding that expenditures have not been properly documented and/or supported or that expenditures were improperly charged to LSC. CALSC's management provided no additional documentation supporting its position.

The OIG considered CALSC management's comments to be responsive to 11 recommendations and not responsive to 10 recommendations. The non-responsive recommendations were forwarded to LSC management for action. The OIG considers all 21 recommendations as open until final actions are taken.

## **Audit Reports**

Open at beginning of reporting period.....	7
Issued during reporting period.....	1
Closed during reporting period.....	2
Open at end of reporting period .....	6

## **Recommendations to LSC Grantees**

Pending at beginning of reporting period .....	14
Issued during reporting period.....	21
Closed during reporting period.....	7
Pending at end of reporting period .....	28

## **Recommendations to LSC Management**

Pending at beginning of reporting period .....	2
Issued during reporting period.....	0
Closed during reporting period.....	0
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 (including the 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: (1) desk reviews, and (2) 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.

### **Desk Review of IPA Reports**

The OIG conducts a desk review of all IPA reports issued to grantees. This process enables the OIG to identify and forward to LSC management significant findings that require management's attention. The OIG then tracks which recommendations have been acted upon and what actions have been taken by the grantee. In addition, the OIG uses information from its review of IPA reports as part of its risk assessment and planning process for audits, investigations, and other reviews.

### **Audit Service Reviews**

The OIG's audit service reviews 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 one such review during 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. 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, the OIG 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. The audit reports and the findings identified below reflect the work of the IPAs, not the OIG.

During the reporting period, the OIG reviewed 98 IPA audits of grantees with fiscal year ending dates from December 31, 2009 through March 31, 2010. These audit reports contained 39 findings. The OIG determined that 14 findings were not significant or that corrective action had already been completed and closed the findings. The remaining 25 findings were referred to LSC management for follow-up. The tables below present information on those findings.

**Summary of Findings for Grantee Audit Reports Reported in Grantee  
Financial Statement Audits with Fiscal Years Ending  
December 31, 2009 through March 31, 2010**

Total Number of Findings Referred ..... 25

Number of Findings with Corrective Action Accepted  
By LSC Management ..... 1

Number of Findings Awaiting LSC Management Review ..... 24

**Types of Findings Referred to LSC Management for Follow-up**

<b><u>Category</u></b>	<b><u>Number of Findings</u></b>
Missing Documentation .....	6
Financial Transactions and Reporting .....	5
Private Attorney Involvement .....	3
Reporting Issues .....	2
Physical Inventory .....	2
Fund Balance .....	2
Income Eligibility .....	2
Real Property Purchase without Prior LSC Approval .....	1
Membership Dues .....	1
Timekeeping.....	1
TOTAL.....	25

## **INVESTIGATIONS**

The OIG opened 21 investigations during this reporting period. These included 11 criminal investigations, 8 compliance matters, and 2 fraud vulnerability assessments. The criminal investigations included allegations of fraudulent claims, counterfeit 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 22 investigations. These included 11 criminal investigations, 7 compliance matters, and 4 fraud vulnerability assessments. Investigators also served 6 Inspector General subpoenas in connection with ongoing investigations.

Three convictions were obtained this period in OIG cases involving significant embezzlements from LSC grantees, as described below.

### **Former Finance Chief Pleads Guilty to Stealing Over \$1 Million**

The former Chief of Finance of the Maryland Legal Aid Bureau (MD Legal Aid), an LSC grantee, pleaded guilty in federal court to stealing more than \$1 million from MD Legal Aid. In connection with his plea, the former finance chief admitted to having entered into corrupt agreements with different vendors under which MD Legal Aid was charged inflated prices and a portion of the excess was paid to him in kickbacks. He further admitted to having worked with another individual to create a sham office supply company through which they would submit inflated purchase orders and invoices. As a result of the scheme, over a ten-year period MD Legal Aid overpaid for supplies by approximately \$1.2 million. Over \$1 million of this amount went to the former finance chief, who spent it on high stakes gambling, on entertainment at strip clubs, and to pay a personal credit card account. Sentencing is scheduled for December 10, 2010. The defendant faces a maximum sentence of 10 years imprisonment and a \$250,000 fine. The other party to the scheme (the individual who, at the former finance chief's direction, created the sham office supply firm), also pleaded guilty and is scheduled to be sentenced on November 19, 2010. The investigation was conducted by the OIG jointly with the FBI.

### **Former Bookkeeper Convicted of Theft of Grant Funds**

The former bookkeeper of an LSC grantee was convicted in federal court on a plea of guilty to a charge of theft from a program receiving federal funds. At the plea, the Court was informed that in the eight years she worked for the grantee the former employee embezzled more than \$188,000 through a variety of schemes, including writing checks to herself but recording them as payments to legitimate creditors/suppliers; making unauthorized bank withdrawals using the

grantee's ATM card; making unauthorized electronic funds transfers to pay personal bills, such as her personal credit cards; and making improper charges to the grantee's credit card. After discovery of the embezzlements, the grantee terminated the individual's employment and a forensic examination was conducted by an independent accounting firm. The grantee reported that full restitution has been made for the embezzled funds. Sentencing is scheduled for November 5, 2010. The former employee faces a maximum sentence of 10 years imprisonment and a fine of \$250,000.

### **Former Paralegal Sentenced for Fraudulently Claiming Over \$134,000 for Phony Travel**

A former employee of an LSC grantee, who had been convicted on a plea of guilty to mail fraud for stealing \$134,350 in grant funds, was sentenced in federal court to 54 months in prison and ordered to make full restitution to the affected grantee. An OIG investigation, conducted jointly with the OIG of the Department of Veteran's Affairs, disclosed that over a two-and-a-half year period the subject, while employed as a paralegal by the grantee, filed over 500 false mileage and per diem reimbursement claims for travel that he did not take.

### **Improper Use of Grantee Funds by Former Executive Director**

The OIG conducted an investigation in response to information provided by a grantee program that a former Executive Director (ED) may have intercepted checks intended for the program, cashed the checks, and kept the proceeds. The investigation confirmed that the ED cashed three checks totaling \$380 and further disclosed that he improperly used the grantee's credit card for personal charges and cash advances at casinos totaling nearly \$8,000. The ED had left his position prior to our investigation. We confirmed that prior to leaving he had either paid the credit card company directly or reimbursed the program for the improper charges. The investigation also disclosed potential time and attendance abuse by the former ED during his tenure with the grantee. The grantee's current ED and senior management were informed of the results of our investigation.

### **Proactive and Preventive Initiatives**

### **Fraud Vulnerability Assessment Identifies Control Weaknesses**

During this reporting period the OIG completed four 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 typically also include briefing the grantee's executive director and chief financial officer on fraud prevention. 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.

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 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.

One of the Fraud Vulnerability Assessments conducted during this period revealed the potential for control weaknesses and the need to establish or document procedures in a number of areas, including: travel advances; salary advances; use of the program's credit cards; handling petty cash; controlling voided checks; securing blank checks; and following contracting procedures. This matter was referred to the OIG auditors for an assessment as to the adequacy of the internal controls related to the grantee's accounting system and an assessment as to whether future audit work should be conducted by OIG at the grantee program.

## **Fraud Awareness Briefings**

The OIG is committed to reducing the opportunities for LSC grantees to fall victim to fraudulent activity. The OIG has taken a proactive approach by presenting Fraud Awareness Briefings at LSC-funded programs in which we share ways to try to prevent fraud, including, among other things, setting the right "tone at the top" and establishing and adhering to adequate internal controls.

Many individuals at LSC-funded programs do not deal with fraud prevention on a regular basis, and while they may be generally aware that fraud may occur at any organization, they may not be aware of the potential for fraud within their own programs. Moreover, program staff often may think that if there is fraud at all, it must be minimal. The unfortunate truth is that a number of LSC-funded programs have been victimized by frauds involving hundreds of thousands of dollars, and even most recently (as reported here) by one involving over a million dollars.

The OIG Fraud Awareness Briefings include a 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 or staff names, various types of fraud schemes perpetrated against LSC grantees. The briefings provide an opportunity for program staff to ask questions and make suggestions regarding

ways to prevent fraud at their own legal services program. We suggest to executive directors that all their staff, as well as board members and auditors, should attend since the presentation can be beneficial to all.

LSC grantees are invited to request a Fraud Awareness Briefing at a time and place convenient to the grantee. Those selected for a briefing by the OIG are generally not chosen because of any particular concern about the program. The grantees visited thus far have had very positive responses to the presentations. This reporting period the OIG conducted Fraud Awareness Briefings at four LSC-funded programs in Arkansas, California, Maine, and Minnesota.

In addition, the OIG investigative staff conducted a Fraud Awareness Briefing at LSC headquarters before approximately 60 managers and staff. This in-house briefing provided an opportunity to share the information typically given to grantees with LSC staff, as well as to answer their questions and get their feedback on the briefing.

### **Preventing Laptop Computer Theft**

The theft of laptop computers continues to be one of the types of incidents most frequently reported by LSC grantees. During this six-month reporting period, the OIG received reports from three programs regarding laptop theft (as well as, from two of the programs, regarding theft of desktop computers). In responding to reports of computer theft, the OIG contacts the respective program in order to determine the circumstances surrounding the theft and obtain identifying information regarding the computer (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 in prior reporting periods, 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 trifold brochure entitled, "An OIG Guide for LSC-Funded Programs: How to Prevent Computer Laptop Theft or Loss." The brochure is available online at our website, [www.oig.lsc.gov](http://www.oig.lsc.gov).

### **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 60 Hotline contacts (compared to 59 the previous reporting period). Of these matters, 12 were referred to LSC's management for follow-up; 13 were opened as investigations; 5 are open pending further inquiry; and the remaining were closed after review and, wherever possible, after providing a 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. In addition, OIG staff participated in a pilot Hotline training program at the Federal Law Enforcement Training Center.

## **Investigative Cases**

Open at the beginning of period.....	26
Open during the period .....	21
Closed during period.....	22
Open at the end of period .....	25

## **Prosecutorial Activities**

Referred this period .....	0
Accepted for prosecution .....	0
Declined for prosecution .....	0
Indictments/Informations.....	0
Convictions .....	3

## **Investigative Activities**

Inspector General Subpoenas issued.....	6
---	---

## **OTHER OIG ACTIVITIES**

### **Review of Proposed Legislation, Regulations and Policy**

Pursuant to the IG's statutory responsibilities, the OIG reviews and, where appropriate, comments on legislative 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.

#### **IG Testimony**

On April 27, 2010 the Inspector General testified before the House Judiciary Committee's Subcommittee on Commercial and Administrative Law concerning H.R. 3764, the Civil Access to Justice Act of 2009. In his testimony the Inspector General acknowledged that the bill proposed useful reforms that would strengthen LSC and its grantees, but 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 would 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 runs directly counter to the intent of Congress, as expressed in the recently-enacted Inspector General Reform Act of 2008, to enhance the authority of federal Inspectors General to root out waste, fraud, and abuse in federally-funded programs. The OIG provided a number of proposed amendments to H.R. 3764 which, if accepted, would address these concerns. The OIG also provided detailed responses to a comprehensive set of questions provided by the Subcommittee after the hearing.

#### **LSC Policy**

The OIG continued its participation in the annual update of LSC's grant assurances, submitting comments and suggested revisions to LSC management.

During this reporting period, LSC issued a new Accounting Guide for LSC Recipients (Guide). The Guide sets forth financial accounting and reporting standards and describes the accounting policies, records, and internal control procedures to be used by recipients of LSC funds. The OIG reviewed the draft Guide and provided comments for management's consideration. Management made modifications to the Guide, where it deemed appropriate, based on the

comments provided and issued the Guide in final form, effective August 23, 2010.

## **Congressional Requests**

In response to a joint request from individual members (including the Ranking Members) of the Senate Finance Committee, the House Committee on Oversight and Government Reform, and the House Committee on the Judiciary, the OIG conducted an inquiry regarding concerns about the ability of LSC's Office of Legal Affairs (OLA) to operate independently and provide legal opinions without management interference. Our report addressed the specific questions presented by the requestors. We concluded that while the conduct described in our findings (reflecting potential impairment of the General Counsel's and OLA's ability to fully and properly perform their functions) would otherwise be cause for concern regarding significant issues of corporate governance, the changes made by the new LSC president since January 2010 had directly ameliorated the problems and concerns identified.

In response to a request from the Ranking Members of the Senate Committee on Finance and of the Senate Homeland Security and Governmental Affairs Committee's Permanent Subcommittee on Investigations, we provided a report on all closed matters conducted by the OIG during the period January 1, 2009 through April 30, 2010. Our report included a confidential summary of closed investigative matters, as well as a detailed compilation of all Audit Service Review reports conducted by the OIG as part of our oversight of the independent audits required annually of LSC's grantees. We also responded that we had no instances to report of agency resistance, objections, or restrictions as to our activities or access, nor of threats or attempts to impede our communications with Congress by any federal official.

In response to a request of the Ranking Member, House Committee on Oversight and Government Reform, we provided a report on all open and unimplemented recommendations of the OIG, including associated cost savings estimates. As requested, we also provided our suggestions for legislative changes which we believe would further improve the Inspector General Act of 1978, as amended. Most of our suggestions called for technical amendments to correct flaws in the IG Reform Act resulting from the use of terms such as "agency" and "department" in a number of its provisions. Because of the way those terms are defined and used, certain existing OIGs, including the LSC OIG, are not included within the literal terms of certain important provisions of the amended IG Act. We also proposed a technical amendment relating to the Program Fraud Civil Remedies Act (PFCRA), which is necessary to enable LSC to benefit from the IG Act's expansion of the PRCRA to include designated federal entities.

## **Litigation**

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 Court heard arguments on the petition. At the request of the 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.

As of this date, the subpoena enforcement action remains pending as the parties await the Court's ruling on all outstanding issues in the case.

## **Management Information Memorandum**

The OIG issues Management Information Memoranda (MIMs) when we believe that issues uncovered in the course of ongoing OIG work should be brought promptly to management's attention, so that management may consider taking immediate corrective action. This period the OIG issued a MIM concerning the outside practice of law by executive directors of LSC-funded programs.

We reported our findings that some executive directors had engaged in the outside practice of law without having sought prior permission from their respective boards of directors. We also found instances where executive directors used program resources, including staff, for their outside cases, and had used their official title and program name/address in letters and pleadings, leaving the erroneous impression that their activities were conducted on behalf of the program.

The OIG recommended to LSC management that they advise executive directors who wish to conduct an outside law practice that they are considered full-time attorneys under LSC regulations (42 C.F.R. Part 1604), and that they must obtain permission from their board of directors or the board's designee before engaging in any such practice. We also recommended that management provide cautionary guidance to programs concerning the use of resources, staff, and the program's identity when any program attorney, including an executive director, is conducting outside legal practice.

## **Freedom of Information Act**

The OIG is committed to complying fully with the requirements of the Freedom of Information Act (FOIA). All FOIA requests received by the OIG this period were responded to within the requisite timeframes.

## **GAO Support and Coordination**

During the period, GAO completed 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.

## **Professional Assistance**

The OIG participates in and otherwise supports varied activities and efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), as well other inter-agency IG groups. The OIG actively participated in the CIGIE Hotline Working Group, assisting in the development of an informational booklet, to be distributed government-wide, on best practices for Hotline operations. Additionally, the OIG routinely responds to requests for information or assistance from other OIGs.

## **APPENDIX – PEER REVIEWS**

The following information is provided pursuant to the requirements of Section 989C of Public Law 111-203 (July 21, 2010), the Dodd-Frank Wall Street Reform and Consumer Protection Act, amending the Inspector General Act of 1978 (the IG Act), 5 U.S.C. App 3. The references are to the newly added provisions of Section 5(a) of the IG Act.

(14)(B) – The last peer review of the OIG was conducted by the Office of the Special Inspector General for Iraq Reconstruction on January 28, 2009.

(15) – There are no outstanding recommendations from any peer review of the OIG conducted by another Office of Inspector General that have not been fully implemented.

(16) – No peer reviews were conducted by the OIG of another Office of Inspector General during the reporting period. The last peer review conducted by the OIG was of the Office of Inspector General for the National Railroad Passenger Corporation (Amtrak), and was completed on September 30, 2009. We have been advised by that office that our recommendation that they implement a system that accurately tracks required continuing professional education (CPE) credits had been partially implemented. They advised that CPE information is being recorded and reviewed to ensure CPE requirements are being met, and that an automated system is being developed for use during this fiscal year. They reported no other recommendations as outstanding or not fully implemented.

**TABLE I**

**Audit Reports Issued**

**for the Period Ending September 30, 2010**

<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: Capital Area Legal Services Corp.	09/27/10	\$318,768	\$0	\$0

**Audit Service Reviews Issued**

**for the Period Ending September 30, 2010**

<u>Recipient</u>	<u>IPA</u>	<u>Date Issued</u>
Texas RioGrande Legal Aid	Gomez, Fragoso & Assoc.	09/28/10

**TABLE II**

**Audit Reports Issued with Questioned Costs**

**for the Period Ending September 30, 2010**

	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0	\$0
B. Reports issued during the reporting period	1	\$318,768	\$0
Subtotals (A + B)	1	\$318,768	\$0
C. For which a management decision was made during the reporting period:	0	\$0	\$0
(i) dollar value of recommendations that were agreed to by management	0	\$0	\$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	1 <sup>1</sup>	\$318,768	\$0
Reports for which no management decision had been made within six months of issuance	0	0	\$0

---

<sup>1</sup>The OIG referred questioned costs of \$318,768 for Capital Area Legal Services Corporation to LSC's Office of Compliance and Enforcement on September 27, 2010.

**TABLE III**

**Audit Reports Issued with Funds to Be Put to Better Use**

**for the Period Ending September 30, 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
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
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 received rulings from IRS on the classifications of specific individuals. The recommendation remains open until LSC management acts on the IRS rulings.
Audit of LSC's Consultant Contracts	07/07/09	\$0	LSC management has received rulings from IRS on the classifications of specific individuals. This recommendation remains open until LSC management acts on the IRS rulings.
Report on Selected Internal Controls: Legal Aid and Defender Association, Inc.	02/05/09	\$273,054	Questioned cost proceedings were completed by LSC last reporting period and reported on in our last Semiannual Report. These findings remain open pending the results of an oversight visit by LSC management.

<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 were completed by LSC last reporting period and reported on in our last Semiannual Report. These finding remain open pending issuance of a final report on the follow-up audit.
Report on Selected Internal Controls: Legal Services New York City	12/11/08	\$0	Finding remains open while awaiting confirmation that new allocation system has been 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	15
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	3-4; 9-10
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-4
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	23-24
Section 5(a)(4)	Matters referred to prosecutive authorities.	None
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.	3-4
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
Section 5(a)(14)-(16)	Peer reviews.	19

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

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