

Office of Inspector General

Summary Report on Audits of Selected Grantees for Compliance with Selected Regulations

Project No. 96-062

(Summary of Results from Projects 96-063 and 96-064)

Final Audit Report No. AU96-062

February 1998

INTRODUCTION

In Public Law 104-134 [110 Stat. 1321 (1996)], the 1996 appropriation for the Legal Services Corporation (LSC), Congress imposed restrictions and prohibitions on the types of services LSC grantees may provide to clients and on the methods they may employ in providing those services. The law, enacted on April 26, 1996, required the grantees to discontinue servicing certain types of cases immediately. It also required grantees to divest of three other types of cases (class actions, prisoner litigation, and alien representation) no later than July 31, 1996. Congress required LSC to report whether grantees had divested of these cases within the time allotted.

In order to provide the LSC Board of Directors, management, and Congress with an independent assessment of the grantees' compliance with the new law, the LSC Office of Inspector General (OIG) initiated two types of limited scope audits covering 12 grantees. A performance audit tested: (1) whether the grantees had divested of the prohibited cases and were providing only those legal services permitted in restricted cases; and (2) whether the selected grantees had implemented the policies and procedures to ensure that case-related activities were within the new law. A financial related audit was designed to determine whether selected grantees were supporting prohibited or restricted activities through the grantee or alternative organizations. Pine Tree Legal Assistance, Inc. (PTLA) was included in both the performance and the financial related audits. This report presents the results of the performance audit of PTLA.

TABLE OF CONTENTS

INTRODUCTION

LIST OF APPENDICES

RESULTS IN BRIEF

RECOMMENDATIONS TO LSC MANAGEMENT

LSC MANAGEMENT COMMENTS ON THE DRAFT SUMMARY AUDIT REPORT

BACKGROUND

OBJECTIVES

SCOPE

METHODOLOGY

FINDINGS AND RECOMMENDATIONS

FINDING 1 -- One grantee, Legal Aid Society of Alameda County, did not have adequate controls in place to ensure compliance with LSC regulations

FINDING 2 -- One grantee, Legal Assistance Foundation of Chicago, continued representation after July 31, 1996, in two class action suits

FINDING 3 -- In three instances, certain LSC regulations do not accommodate unique circumstances pertaining to juveniles or adults who are legally incompetent

FINDING 4 -- LSC management cannot determine and LSC grantees cannot ensure that part-time employees of grantees do not work on restricted or prohibited cases while receiving LSC funds for their services

AREAS FOR FURTHER STUDY

LIST OF APPENDICES

**Appendix
Number**

Appendix Title

- | | |
|----|--|
| I | <u>LSC Management Response to Summary Report</u> |
| II | Pine Tree Legal Assistance, Inc., Performance Audit Report
<u>AU96-063A</u> |

- III Pine Tree Legal Assistance, Inc., Financial Related Audit Report [AU96-064A](#)
- IV Rhode Island Legal Services, Inc., Performance Audit Report [AU96-063F](#)
- V Legal Services Law Line of Vermont, Inc., Financial Related Audit Report [AU96-064E](#)
- VI Legal Services Corporation of Delaware, Financial Related Audit Report [AU96-064H](#)
- VII Legal Aid Bureau, Incorporated, Performance Audit Report [AU96-063G](#)
- VIII Neighborhood Legal Services Association, Performance Audit Report [AU96-063E](#)
- IX Advocates for Basic Legal Equality, Financial Related Audit Report [AU96-064F](#)
- X Legal Assistance Foundation of Chicago, Performance Audit Report [AU96-063B](#)
- XI Legal Assistance Foundation of Chicago, Financial Related Audit Report [AU96-064B](#)
- XII Florida Rural Legal Services, Inc., Performance Audit Report [AU96-063C](#)
- XIII Florida Rural Legal Services, Inc., Financial Related Audit Report [AU96-064C](#)
- XIV Legal Aid Society of Middle Tennessee, Performance Audit Report [AU96-063H](#)
- XV Legal Aid Society of Alameda County, Performance and Financial Related Audit Report [AU96-063/064D](#)
- XVI Community Legal Services, Inc., Financial Related Audit Report [AU96-064G](#)
- XVII [Summary of Audit Findings and Recommendations](#)

RESULTS IN BRIEF

Each of the financial related audits contained three objectives, which were designed to determine whether the grantees were supporting prohibited or restricted activities directly or through other organizations. The three objectives of each performance audit were designed to determine whether the selected grantees had divested of and discontinued representation in prohibited and restricted cases and implemented policies and procedures to comply with the related regulations. The specific objectives and a brief discussion of the results of the audits are set forth below.

Objective 1:

To determine whether grantees used funds to pay other legal organizations to handle prohibited or restricted cases.

Results:

We found no evidence that 7 of the 8 grantees inappropriately used funds indirectly to support other persons or organizations to handle prohibited or restricted cases.

However, we were unable to determine whether one grantee had indirectly supported prohibited activities because it charged time on permissible cases that had already been transferred, and allowed a part-time attorney to use its facilities to support later work on cases that had been transferred.

Objective 2:

To determine whether current employees, terminated employees, or consultants continued to work on restricted or prohibited cases, and received LSC funds for their services, after restrictions and prohibitions took effect.

Results:

With respect to 5 of the 8 grantees, we found no evidence that current or former employees or consultants continued work on prohibited or restricted cases, and received LSC funds for those services, after the prohibitions and restrictions took effect.

With respect to the remaining three grantees, the effects of one or more conditions prevented us from determining whether or not the grantees provided on-going support for prohibited or restricted activities. Those conditions included part-time work arrangements, inadequate controls in timekeeping systems, and an absence of policies and procedures governing alternative work arrangements.

Objective 3:

To determine whether timekeeping records indicated continued involvement in restricted or prohibited cases after grantees were required to cease official involvement with the cases.

Results:

For 3 of the 8 grantees reviewed, we found no evidence in the timekeeping records to indicate continued involvement in restricted or prohibited cases after the grantees were required to cease official involvement with the cases, except for transitional work performed by 1 grantee pursuant to professional responsibility.

With respect to 4 of the 8 grantees, we were unable to determine from

timekeeping records whether or not there was continued involvement in restricted or prohibited cases after the grantees were required to cease official involvement with the cases. In addition, we found that the timekeeping system of 1 of these 4 grantees did not comply with LSC regulations. We also found that another one of these grantees did not implement the timekeeping system by the date required.

With respect to 2 of the 8 grantees, we found that attorneys charged time to 3 class action cases after the prohibitions and restrictions took effect.

Objective 4:

To determine whether grantees divested of class action, prisoner litigation, and restricted alien cases by the July 31, 1996, deadline as required by section 508(b)(2) of Public Law 104-134.

Results:

We found no evidence that 4 of the 8 grantees did not divest of prohibited class action, prisoner litigation, or alien representation cases by the statutory deadline. However, for one of the grantees, the case file for one prisoner litigation case was missing, so we were unable to determine whether prisoner litigation cases had been fully divested.

One grantee was unable to divest of 8 cases by the deadline, but implemented, under LSC management oversight, a corrective action plan to divest by the end of 1996.

Another grantee did not divest of approximately 300 alien cases by the deadline, primarily because the intended transferee did not obtain staff resources to handle the cases until January 1997. There was no evidence that the grantee worked on these cases after the deadline.

For another grantee, extenuating circumstances prevented timely divestiture of one alien representation case, in which the client was a child in long-term foster care whose immigration status had not yet been adjusted to permanent residency.

We could not determine whether one grantee divested of prohibited cases for several reasons. Data on the grantee's case system was not reliable as indicated by the facts that some cases transferred to another organization remained coded as open on the grantee's case management system and the system reflected an incorrect reason for case closure in some instances. This grantee also retained physical possession of 2 case files from restricted cases that had been recorded as transferred.

Objective 5:

To determine whether the grantees continued representation after April 26, 1996,

with respect to the prohibited and/or restricted case services in violation of the law.

Results:

We found no evidence that 5 of the 8 grantees continued representation after April 26, 1996, with respect to prohibited or restricted case services in violation of the law.

One grantee continued representation in 2 class action cases after the prohibitions and restrictions took effect. Although grantee management interpreted its activities to be allowable under the regulatory exception for non-adversarial activities, the OIG disagreed (see finding 2, page 9).

For various reasons, another grantee could not adequately demonstrate that it had discontinued representation in prohibited or restricted cases (see finding 1, page 7).

In addition, one audit disclosed some issues that current regulations do not address. One grantee was unable to obtain citizenship attestation for certain court appointed cases because the clients were either juveniles or adults judged to be incompetent. In addition, the regulations regarding prisoner litigation do not address representation of a juvenile incarcerated pending a determination of whether the juvenile will be tried as an adult (see finding 3, page 10).

Objective 6:

To determine whether grantees had adopted new policies and procedures to conform with the new law, and had communicated those policies and procedures to their staffs.

Results:

We found that 7 out of 8 of the grantees had adopted policies and procedures to conform with the new law and had communicated those policies and procedures to staff members.

One grantee did not establish policies and procedures within a reasonable time period.

However, we found some problems with adherence to policies and procedures. Six of the grantees did not obtain client attestations and/or did not verify alien eligibility in every case as required. In addition, 1 of these 6 grantees did not have sufficient controls to ensure that client statements of fact were consistently obtained.

RECOMMENDATIONS TO LSC MANAGEMENT

We recommended that LSC take appropriate action on findings of grantee noncompliance. We also recommended that: (1) LSC require periodic reports of class action cases retained under the regulatory exception for non-adversarial activities; (2) regulations be reviewed to accommodate alien minors, incarcerated minors, and persons judged incompetent; and (3) part-time attorneys be required to account for all hours worked by date and time of day.

LSC MANAGEMENT COMMENTS ON THE DRAFT SUMMARY AUDIT REPORT

LSC management generally agreed with the findings and recommendations in this report. Management comments on each recommendation have been included in the discussion of the respective recommendations. The complete text of the responses to the draft of this report is included as [Appendix I](#).

AREAS FOR FURTHER STUDY

This report contains two areas for further study arising from findings that were cited in several of the grantee audit reports. Issues related to client attestations of citizenship and verification of alien eligibility were cited as findings in six of the eight reports that included performance objectives. Three reports cited control exceptions related to employee benefits, some of which may be, in effect, indirect payments for prohibited or restricted activities.

INDIVIDUAL GRANTEE REPORTS, FINDINGS, AND RECOMMENDATIONS

The individual grantee audit reports, together with grantee management responses, are included in the Appendices II through XVI of this report. A summary list of the findings and recommendations from all of the OIG reports on individual grantees is included in Appendix XVII.

BACKGROUND

The twelve grantees covered by the performance audit, the financial related audit, or both audits are as follows:

Grantee	Recipient No.	Location	Audit Type
Pine Tree Legal Assistance, Inc.	120000	Portland ME	Both
Rhode Island Legal Services	140000	Providence RI	Performance
Legal Services Law Line of	146010	Burlington VT	Financial

Vermont, Inc.

Legal Services Corporation of Delaware	308010	Wilmington DE	Financial
Legal Aid Bureau, Incorporated	321016	Baltimore MD	Performance
Neighborhood Legal Services Association	339060	Pittsburgh PA	Performance
Advocates for Basic Legal Equality	436150	Toledo OH	Financial
Legal Assistance Foundation of Chicago	514020	Chicago IL	Both
Florida Rural Legal Services	610020	Lakeland FL	Both
Legal Aid Society of Middle Tennessee	643040	Nashville, TN	Performance
Legal Aid Society of Alameda County	805160	Oakland, CA	Both
Community Legal Services	805301	San Jose, CA	Financial

The 12 grantees received a combined total of nearly \$17.5 million in fiscal year 1996. In addition to the Executive Directors, these grantees employed approximately 258 attorneys, 147 paralegals, and 255 other staff.

In June 1996, the recipients subject to these audits reported to LSC approximately 100 class action suits, 89 prisoner litigation cases (of which 9 were also class actions), and 2,105 alien representation cases, for a total of 2,285 cases to be divested by July 31, 1996. One grantee reported cases that it had been unable to divest by the July 31 deadline. That grantee followed a corrective action plan, which LSC management monitored, and all 8 such cases were divested or resolved before the end of 1996.

OBJECTIVES

The specific objectives of the financial related audit were to determine whether:

- Grantees used funds to pay other legal organizations to handle prohibited or restricted cases;
- Current employees, terminated employees, or consultants continued to work on restricted or prohibited cases and received LSC funds for their services after restrictions and prohibitions took effect; and
- Timekeeping records indicated continued involvement in restricted or prohibited cases after grantees were required to cease official involvement with the cases.

The specific objectives of the performance audit were to determine whether grantees had:

- divested of class action, prisoner litigation, and restricted alien cases by the July 31, 1996, deadline as required by section 508(b)(2) of Public Law 104-134;
- continued representation after April 26, 1996 with respect to the prohibited and/or restricted case services in violation of the law; and
- adopted new policies and procedures to conform with the new law, and communicated those policies and procedures to their staffs.

SCOPE

The audits were performed in the main office locations and 5 branches between November 18, 1996 and May 7, 1997. Audit procedures for the performance audit were limited to the following six regulations and the applicable interim rules in effect for 1996:

Part 1617 Class Actions

Part 1626 Alien Representation

Part 1633 Drug-related Evictions

Part 1637 Prisoner Litigation

Part 1639 Welfare Reform

Part 1636 Plaintiff Statements of Fact/Client Identity

The revised regulation 45 C.F.R. 1610 became effective on June 20, 1997. A component of this rule addresses program integrity as it relates to independence from another entity. This new rule and its application were beyond the scope of the financial-related audit.

Relevant to the stated objectives we reviewed cases and other matters existing prior and subsequent to April 26, 1996 through the commencement of our field work. We did not review cases or other matters subsequent to our visits, except as they pertained to our follow-up of issues addressed in our reports.

METHODOLOGY

The OIG conducted the performance and the financial related audits in accordance with generally accepted government auditing standards. Audit procedures for both audits were limited to the following:

- conducting interviews with Executive Directors, managing attorneys and other case handlers to obtain an understanding of the policies, procedures

- and processes established to implement the regulatory requirements;
- examining documentation supporting grantees' assertions on their involvement in cases and other matters related to class actions, certain categories of aliens, and certain types of representation involving incarcerated persons;
- examining the court records for samples of restricted and unrestricted cases;
- conducting searches for restricted cases that were not reported and not divested by July 31, 1996;
- examining samples of case files opened prior to and after April 26, 1996 to ascertain whether there was continued involvement in restricted cases;
- determining whether the recipients had established policies and procedures as required by the respective regulations and had communicated those policies and procedures to their staffs;
- conducting interviews with grantee personnel, and reviewing policies and procedures to obtain an understanding of the controls in place to ensure that payments were not made for, or in support of prohibited or restricted activities; and
- examining grantee accounting records and other documents.

FINDINGS AND RECOMMENDATIONS

The Results in Brief section of this report discussed overall conclusions on each objective and summarized the findings upon which each conclusion was based. This section contains only those grantee findings for which the OIG recommends LSC management action. Those findings for which the OIG recommended grantee action have not been included here, but are listed in Appendix XVII.

FINDING 1 -- One grantee, Legal Aid Society of Alameda County, did not have adequate controls in place to ensure compliance with LSC regulations.

The report on this grantee cited 12 findings, each of which was related to compliance or controls over compliance. These findings were as follows:

1. In some instances, cases that were transferred to other organizations remained open on the grantee's case management system.
2. The grantee retained physical possession of 2 files from restricted cases that previously had been represented as transferred to other organizations.
3. The grantee's case management system incorrectly described the reason for case closure in 5 of 51 cases sampled.
4. An attorney employed by the grantee charged 11.25 hours after July 31, 1996, to a class action case that was transferred to another organization.
5. Documentation of citizenship attestation or alien eligibility was missing in 9 of 101 cases reviewed.
6. The grantee's operational controls over case divestiture were not adequate

- to ensure that representation in prohibited cases was discontinued.
7. The grantee did not establish policies and procedures required by the six reviewed regulations within a reasonable time period.
 8. Attorneys employed by the grantee expended time on transferred permissible cases after the grantee paid other organizations to handle them as part of transfer agreements to divest of prohibited and restricted cases.
 9. One attorney employed part-time by the grantee used the grantee's facilities after July 31, 1996, to receive mail and make photocopies for later use in that attorney's part-time work on transferred cases performed for another organization.
 10. The grantee did not have management controls to ensure, and could not demonstrate, that its employees did not work on restricted or prohibited cases while being paid with LSC funds for their services after restrictions and prohibitions took effect.
 11. The grantee did not implement a timekeeping system by the date required by LSC regulations.
 12. The grantee did not reconcile time distribution records (which show the distribution of hours worked to cases and activities) with the time and attendance records used for payroll.

The cumulative effect of these findings was that we were unable to determine whether this grantee had complied with the six LSC regulations we reviewed. The grantee could not demonstrate that it had divested of all of the cases because its case management system was not reliable (findings 1 and 3) and files from cases transferred to other organizations remained in its physical possession (finding 2). We could not determine that the grantee ceased representation in restricted or prohibited case services because an attorney continued charging time to a transferred prohibited case (finding 4) and the grantee did not have convincing evidence to demonstrate that it had ceased representation (findings 5, and 6). The grantee did not adopt within a reasonable time period new policies and/or procedures required by the six regulations we reviewed (finding 7). The grantee could not demonstrate that it was not funding prohibited and restricted cases because transfer agreements included closed cases and cases on which attorneys employed by the grantee continued to charge time after July 31, 1996 (findings 6 and 8), and because an attorney employed by the grantee part-time was allowed to use the grantee's facilities to work on cases transferred to an organization that handled prohibited or restricted cases (finding 9). The grantee also maintained continued relationships, through part-time and former employees, with organizations that handled prohibited or restricted cases. Together with the unreliability of the grantee's timekeeping and case management systems, these continued relationships prevented us from determining whether current employees, terminated employees, or consultants continued to work on restricted or prohibited cases, while receiving LSC funds for their services, after restrictions and prohibitions took effect (finding 10). Finally, as findings 11 and 12 indicated, the grantee's timekeeping records were not adequate to demonstrate that there was

no continued involvement in restricted or prohibited cases.

Grantee Management Comments on Finding 1 -- The management of Legal Aid Society of Alameda County generally disagreed with all of the findings and conclusions in the audit report.

OIG Response -- Except for reducing the number of instances of exceptions cited in some findings, grantee management comments did not cause the OIG to change any of its original conclusions.

Recommendation 1 -- LSC management should take appropriate action.

LSC Management Comments on Recommendation 1 -- LSC management agreed with the finding and will take immediate action to address it.

FINDING 2 -- One grantee, Legal Assistance Foundation of Chicago, continued representation after July 31, 1996, in two class action suits (*Bell and Woods, et. al. v. Commercial Credit Loans, Inc.* and *Wesco Insurance Company and Hill et. al. v. Erickson*, hereafter referred to as *Bell* and *Hill*, respectively).

The grantee represented the plaintiffs in the *Bell* case, a case involving, among other things, premiums the plaintiffs had paid for insurance for involuntary unemployment. On July 29, 1996, an order for preliminary approval of the class settlement was entered. The settlement agreement estimated the size of the class as 8,150 persons and established floor and ceiling amounts of \$557,536 and \$681,584, respectively. In a "Joint Motion to Approve Revised Notice and Stipulation," filed on October 16, 1996, and granted two days later, the number of potential class members was raised to 11,689. The motion also raised the floor and ceiling amounts so that each person who submitted a participation form would receive no less than \$83.63. We found that attorneys employed by the grantee had charged 75 hours to this case after July 31, 1996.

The grantee also represented the plaintiffs in the *Hill* case, a class action on behalf of pregnant teenagers and teenage parents who were wards of the state, alleging that the Department of Children and Family Services was unnecessarily separating teenaged parents from their children through inappropriate placements of these wards. A consent decree was filed for this case on January 3, 1994. On October 3, 1996, the grantee filed the "Plaintiffs' Statement of the Status of the Two-Year Report." The plaintiffs' statement maintained that the defendant was not going to provide enough information to evaluate whether the objectives of the decree were being met and that the Department of Children and Family Services had missed many of the deadlines established in the decree. An attachment to the plaintiffs' statement set forth at least 17 assertions of non-compliance. The "Defendant's Status Report to the Court" was filed a week after the plaintiffs' statement. It stated that the plaintiffs' questions were answered, the report required

by the decree was not intended to be a statistical study, and the specific numerical data of the nature referenced by the plaintiffs was neither obtained nor required. The defendant's statement also contained an observation that the plaintiffs' counsel appeared to be questioning the reliability of a report that " does not take the form they have suggested " and " which is yet unseen." The grantee filed a motion to withdraw from the case on December 3, 1996, which was granted two days later. We found that attorneys employed by the grantee had charged 23.5 hours to this case after July 31, 1996.

Although we found no evidence that the activities associated with the *Bell* and *Hill* class actions were "adversarial" in nature at the July 31, 1996 deadline, we believe that these two cases became adversarial in nature some time after July 31, 1996.

Grantee Management Comments on Finding 2 -- The management of Legal Assistance Foundation of Chicago disagreed with Finding 2, and asserted that activities in the *Bell* and *Hill* cases were non-adversarial, and thus allowed under the regulations.

OIG Response -- In *Bell*, we believe that a discussion concerning the dollar amount of the settlement between parties with opposing interests is, by its nature, adversarial. In the *Hill* case, on the basis that the two sides presented opposing viewpoints in their respective status reports, we believe that the case had also become adversarial.

Recommendation 2 -- We recommend that LSC management take appropriate action.

LSC Management Comments on Recommendation 2 -- LSC management agreed with the finding and is addressing the recommendation via audit follow-up on the individual grantee report.

Recommendation 3 -- We also recommend that LSC management implement a program of periodic reporting by recipients on the status of class action suits in which recipients are involved in non-adversarial activities in order to facilitate enforcement of 45 C.F.R. 1617. These reports should include, but not necessarily be limited to, lists of open class actions and signed certifications that no adversarial activities have occurred with regard to the cases listed.

LSC Management Comments on Recommendation 3 -- LSC management agreed with the requirement that these matters be reported. In anticipation of this issue, LSC management stated that an alternative system for such reporting was implemented on December 8, 1997.

OIG Response -- The control measure implemented on December 8, 1997 was a

requirement for the grantees to maintain lists of class action cases in non-adversarial monitoring. The lists will be available for review by independent public accountants (IPAs) during their annual audits of LSC grantees.

FINDING 3 -- In three instances, certain LSC regulations do not accommodate unique circumstances pertaining to juveniles or adults who are legally incompetent.

The report on one grantee, Legal Aid Bureau, Incorporated, contained three findings arising from representation of juveniles or adults who were legally incompetent. The first finding noted that the grantee did not divest of one alien representation case because the client was an unmarried child in long-term foster care, an exception not accommodated by LSC Regulation 1626. A second finding observed that LSC regulations did not describe requirements for citizenship attestation when the client is unable to provide such attestation (for example, the client is a juvenile or an adult judged to be legally incompetent). A third finding noted that LSC regulations governing representation of incarcerated individuals do not address situations where minors are incarcerated pending a decision whether they will be tried as adults.

Grantee Management Comments on Finding 3 -- Grantee management agreed with the findings.

OIG Response -- None.

Recommendation 4 -- LSC management should further review the regulations on alien eligibility to consider recognizing the special immigration status afforded children in long-term foster care. LSC should also evaluate the current regulation on client attestations of citizenship and determine whether revisions are necessary to accommodate services to clients who lack the physical or mental capability to provide citizenship attestation. In the absence of regulatory revision, LSC should instruct grantees how to comply with Part 1626.5(a) when the client is incapable of attesting to citizenship. LSC management should review the existing regulation regarding representation of incarcerated individuals, and provide further guidance to recipients on how compliance is to be achieved in situations where juvenile offenders are incarcerated on criminal charges and it is not yet clear whether or not the juvenile will be charged as an adult.

LSC Management Comments on Recommendation 4 -- LSC management agreed with the finding. The Office of General Counsel will evaluate the regulatory provisions included in this recommendation and make a recommendation to the LSC Board of Directors by April 1998 to address the OIG recommendation.

FINDING 4 -- LSC management cannot determine and LSC grantees cannot

ensure that part-time employees of grantees do not work on restricted or prohibited cases while receiving LSC funds for their services.

For three grantees, Pine Tree Legal Assistance, Inc., Legal Services Law Line of Vermont, Inc., and Legal Aid Society of Alameda County, we could not determine whether employees continued to work on restricted or prohibited cases, while receiving LSC funds for their services, after restrictions and prohibitions took effect. Also, for these same three grantees we were unable to determine from the timekeeping records that there was no continued involvement in restricted or prohibited cases. Each of these three grantees has part-time attorneys who also may work part-time for other organizations where they may work on activities that are restricted or prohibited for LSC grantees. In addition, for each of these three grantees, the timekeeping records for tracking time on cases and other activities did not account for all hours worked for payroll purposes or did not reconcile to the record of hours worked for payroll purposes.

As a result, hours not accounted for may have been expended on prohibited or restricted activities while receiving LSC funds for the hours worked. Thus, we could not conclude whether or not employees continued to work on restricted or prohibited cases while receiving LSC funds for their services. Also, LSC management cannot determine and grantee management cannot ensure that employees are not continuing to work on restricted or prohibited activities while receiving LSC funds for their services.

Recommendation 5 -- LSC management should require that part-time employees of grantees account for all hours worked by date and time of day for time and attendance records used for payroll purposes and account for cases and activities worked for the same hours by date and time of day in timekeeping records.

LSC Management Comments on Recommendation 5 -- LSC management agreed with the need for grantees to maintain sufficient records to demonstrate compliance with laws and regulations. As part of the scheduled revisions to the LSC regulation governing timekeeping, LSC management plans to propose regulatory language that will implement the OIG recommendation or will mandate controls designed to be equally effective in demonstrating compliance. The regulatory revision will be presented to the Board of Directors at the June 1998 meeting.

AREAS FOR FURTHER STUDY

Client Attestations of Citizenship

Six of the eight performance audit reports cited one or more issues related to 45 C.F.R. 1626. Although a revision to the regulation effective May 21, 1997 includes supplementary information which addressed some of the causes of OIG

findings regarding client attestations of citizenship, LSC management should revisit its requirements for client attestations of citizenship to address the remaining causes of OIG findings.

Employee Benefits

LSC management should consider revising Regulation 1630 to specify that employee benefits that are, in effect, indirect payments for prohibited or restricted activities may not be charged to LSC funds. For one grantee, there was a management letter comment regarding accrual of benefits during leave taken expressly for the purpose of participating in prohibited activities. For another grantee, there was an absence of policies governing leave and alternative work arrangements. For a third grantee, a lack of management controls may result in the accrual of employee benefits to employees engaged in prohibited or restricted activities.

LSC Management Comments on Areas for Further Study -- LSC management agreed to take these matters under advisement for further review.

APPENDIX XVII
Legal Services Corporation Office of Inspector General
Compliance with Selected Regulations
Financial-related and Performance Audits of Selected Grantees
Summary of Audit Findings and Recommendations

No.	Report	Finding #	Recommendation #	Finding (F) / Recommendation (R)
96-063A	Performance Audit: Pine Tree Legal Assistance (120000)	1	0	F: Grantee did not determine the eligibility of one alien client. R: None. (In December 1996, grantee attempted to determine eligibility but closed the case when those attempts were unsuccessful.)
		2	0	F: Citizenship attestation was not documented in some cases. R: None. (Grantee reminded staff of the importance of completing the citizenship attestation box on the retainer agreement form.)
96-063B	Performance Audit: Legal Assistance Foundation of Chicago (514020)	1	1 2	F: Grantee continued representation in two class action suits. R1: LSC management should take appropriate action. R2: LSC management should implement a program of periodic reporting by grantees on the status of class action suits in which grantees are involved in non-adversarial activities in order to facilitate enforcement of 45 CFR 1617. These reports should include, but not necessarily be limited to, lists of open class actions and signed certifications that no adversarial activities have occurred with regard to the cases listed.
		2	3	F: Required citizenship attestations were not documented in 8 of 19 cases reviewed. R: None. (Grantee took adequate corrective action to ensure they obtained client attestations of citizenship.)
96-063C	Performance Audit: Florida Rural Legal Services (610020)	1	0	F: Alien cases from the Lakeland office were not divested in a timely manner. R: None. (Subsequent to the audit, grantee informed LSC management that it initiated the transfer of the cases.)

96-063C		2	1	<p>F: A significant number (542) of alien representation cases were not reported to LSC management in June 1996.</p> <p>R: LSC Management should ensure that grantee implements adequate controls over case management to ensure the reliability of statistical case information reports.</p>
		3	0	<p>F: In two class action suits, motions for substitute counsel were pending before the courts and had not been granted at the time of the audit.</p> <p>R: None. Grantee transferred the cases to private attorneys and the program was not otherwise involved in litigation; however, the court had not yet allowed grantee to withdraw officially as counsel.</p>
96-063D	Combined Audit: Legal Aid Society of Alameda County (805160)	1	1	<p>F: In some instances, cases that were transferred to other organizations remained open on grantee's case management system.</p> <p>R: Grantee should ensure that its case management system accurately reflects that transferred cases are closed.</p>
		2	2	<p>F: Grantee retained physical possession of 2 files from restricted cases that previously had been represented as transferred to other organizations.</p> <p>R: Grantee should ensure that it is not in possession of cases transferred as part of transfer agreements executed to divest of restricted cases.</p>
		3	3	<p>F: Grantee's case management system incorrectly described the reason for case closure in 5 of 51 cases sampled.</p> <p>R: Grantee should ensure that it provides adequate guidance to staff on correctly defining and coding the reasons for case closure. In addition, grantee should ensure the accuracy of codings posted to the case management system and ensure the accuracy of case statistical information reported to LSC.</p>
		4	4	<p>F: One grantee attorney charged 11.25 hours after July 31, 1996, to a class action cases that was transferred to another organization.</p> <p>R: None. (Grantee had already taken corrective</p>

				action.)
96-063D		5	5	<p>F: Documentation of citizenship attestation or alien eligibility was missing in 9 of 101 cases reviewed.</p> <p>R: Grantee should ensure that staff understand and adhere to the requirements for documentation of citizenship attestation or alien eligibility, and grantee management should conduct periodic reviews of case files to ensure that these requirements are consistently met.</p>
		6	6	<p>F: Grantee's operational controls over case divestiture were not adequate to ensure that representation in prohibited and restricted cases was discontinued.</p> <p>R: Grantee should establish procedures to ensure that it can demonstrate compliance with applicable prohibitions and restrictions.</p>
		7	7	<p>F: Grantee did not establish policies and procedures within a reasonable time frame for the six regulations reviewed.</p> <p>R: Grantee should ensure that the newly established policies and procedures are in place and operating effectively, including ensuring that staff understand and adhere to them.</p>
		8	8	<p>F: Grantee attorneys charged time on transferred permissible cases after grantee transferred them as part of transfer agreements to divest of prohibited and restricted cases.</p> <p>R: Grantee should establish policies and procedures to ensure that grantee's employees do not provide in-kind support to other organizations to handle prohibited or restricted cases.</p>
		9	9	<p>F: One grantee part-time attorney used grantee facilities after July 31, 1996, to receive mail and make photocopies for later use in that attorney's part-time work on transferred cases performed for another organization.</p> <p>R: Grantee should establish policies and procedures to ensure that grantee's plant and equipment are not used for the benefit of other organizations without fair market value compensation from the other organizations in</p>

				return for the benefit received.
		10	10	F: Grantee did not have management controls to ensure, and could not demonstrate, that grantee employees did not work on restricted or prohibited cases while being paid with LSC funds for their services after restrictions and prohibitions took effect. R: Grantee should establish management controls to ensure that grantee employees do not work on restricted or prohibited cases while being paid with LSC funds for their services.
96-063D		11	11	F: Grantee did not implement a timekeeping system by the date required by LSC regulations. R: Grantee should monitor the timekeeping system on a periodic basis to ensure that employees are maintaining the timekeeping records in accordance with policies and procedures.
		12	12	F: Grantee did not reconcile time distribution records (which show the distribution of hours worked to cases and activities) with the time and attendance records used for payroll. R: Grantee should reconcile the time distribution records and the time and attendance records on a periodic basis. Any differences noted between the time distribution records and the time and attendance records should be reconciled and timely corrected.
		1-12	13	F: The recommendation that LSC management take appropriate action is based on the cumulative effect of the findings reported (see findings 1-12). R: LSC management should take appropriate action to address the findings in the report on grantee.
96-063E	Performance Audit: Neighborhood Legal Services Assoc. (339060)	1	1	F: Client signatures attesting to citizenship were not obtained in all cases as required by regulation. R: Grantee should improve procedures to ensure that citizenship attestation is obtained when service extends beyond the initial telephone contact.
		2	2	F: Grantee's procedures for completing the

				<p>"Plaintiff Statement of Facts" were not sufficient to ensure the statements were consistently obtained.</p> <p>R: Grantee should refine its procedures to clarify the circumstances under which the statements of facts are required.</p>
96-063F	Performance Audit: Rhode Island Legal Serv. (140000)	1	1	<p>F: Citizenship attestations or verifications were not obtained in some cases.</p> <p>R: Grantee should verify that established procedures are being followed and are effective to ensure that required citizenship attestations or verifications are obtained.</p>
96-063G	Performance Audit: Legal Aid Bureau, Inc. (321016)	1	1	<p>F: Grantee did not timely divest one alien case, but there were extenuating circumstances pertaining to the special immigration status of juveniles in long-term foster care.</p> <p>R: LSC management should further review the regulations on alien eligibility to consider recognizing the special immigration status afforded children in long-term foster care.</p>
		2	2	<p>F: LSC regulations do not accommodate citizenship attestation for certain court-appointed cases.</p> <p>R: LSC management should evaluate the current regulation and determine whether revisions are necessary to accommodate services to clients who lack the physical or mental capability to provide citizenship attestation.</p>
		3	3	<p>F: In two instances, grantee did not verify the eligibility of clients who were not citizens.</p> <p>R: Grantee management should ensure that staff understand and follow policy to require prospective clients who are not citizens to demonstrate their eligibility for legal services.</p>
		4	4	<p>F: LSC regulations governing prisoner litigation do not address juveniles with criminal charges where the determination to be tried as an adult is pending.</p> <p>R: LSC management should review the existing regulation governing prisoner litigation and provide further guidance to recipients on how compliance is to be achieved in situations where juvenile offenders are</p>

				incarcerated on criminal charges and it is not clear at the time whether or not the juvenile will be charged as an adult.
93-063H	Performance Audit: Legal Aid Society of Middle Tennessee (643040)	1	0	F: Motions for substitute counsel were not filed in a timely manner for two of six reported class action cases. R: None. There was no evidence that grantee was involved in litigating these cases subsequent to July 31, 1996 and they were transferred to substitute counsel on December 20, 1996.
96-064A	Financial Related Audit: Pine Tree Legal Assistance (120000)	1	1	F: Grantee's system for tracking time on cases did not reconcile with payroll time and attendance records. R: Grantee should comply with LSC's timekeeping requirements.
96-064B	Financial Related Audit: Legal Assistance Foundation of Chicago (514020)	0	0	No findings or recommendations were cited in the financial related report on grantee.
96-064C	Financial Related Audit: Florida Rural Legal Services (610020)	0	0	No findings or recommendations were cited in the financial related report on grantee.
96-064E	Financial Related Audit: Legal Services Law Line of Vermont (146010)	1	1	F: Review of a sample of payments made to law firms and private attorneys showed several instances where supporting documentation was not provided. R: Grantee should ensure that all payments contain proper supporting documentation.
		2	2	F: Grantee did not have written policies governing accrued vacation leave and sick leave. R: Grantee, with participation of its board, should develop and implement written policies and procedures to govern accrued vacation leave and sick leave.
		3	3	F: Grantee did not have written policies governing employee alternative work arrangements. R: Grantee, with the participation of its board, should develop and implement written policies and procedures to govern employee alternative

				work arrangements, such as part-time employment, and related benefits.
		4	4	F: Grantee maintained both written and unwritten employee benefits policies that had not been approved by its Board of Directors, even though these policies benefitted grantee management. R: Grantee's board should develop and approve all employee benefits policies that impact on grantee management and should specifically approve any action benefitting the Executive Directive.
		5	5	F: Review of a sample of grantee attorney time sheets showed some instances where the daily reporting of hours did not add up to an grantee standard workday of 7.5 hours. R: Grantee should review time sheets on a regular basis to ensure that all time sheets are completed in accordance with grantee's timekeeping policy to account for all time in the office totaling 7.5 hours daily and 37.5 hours weekly.
96-064F	Financial Related Audit: Advocates for Basic Legal Equality (436150)	0	0	No findings or recommendations were cited in the financial related report on grantee.
96-064G	Financial Related Audit: Community Legal Services, Inc. (805301)	1	1	F: Grantee did not have a written policy and procedure governing consultant contracts. R: Grantee should develop and implement a written policy and procedure to govern consultant contracts.
		2	2	F: Grantee's timekeeping system did not comply with LSC regulations. R: Grantee should utilize a single timekeeping system to capture and store time distribution information and support payroll. Until grantee is able to implement this single timekeeping system via computer, employees should immediately begin to record the required information manually.
96-064H	Financial Related Audit: Legal Services Corporation of	0	0	No findings or recommendations were cited in the financial related report on grantee.

	Delaware (308010)			
TOTAL NO. OF FINDINGS AND RECOMMENDATIONS ISSUED:		35	32	

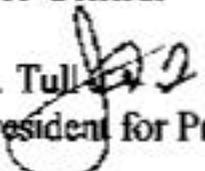
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LEGAL SERVICES CORPORATION

MEMORANDUM

TO: Edouard Quatrevaux
Inspector General

FROM: John A. Tull 
Vice President for Programs

RE: Amended Management Response to the OIG's Draft Roll-up Report: Audits of Selected Grantees for Compliance with Selected Regulations Project Nos. 96-063 and 96-064

DATE: February 13, 1998

Pursuant to our February 12, 1998 meeting regarding the Draft Roll-Up Report, the following is an amended response to the Office of Inspector General recommendations:

1) **Finding**

One grantee, Legal Aid Society of Alameda County, did not have adequate controls in place to ensure compliance with LSC regulations.

Recommendation

LSC management should take appropriate action to address the findings and recommendations in the report.

Management Response

LSC management agrees with this finding. We will take immediate action to address the finding.

2) **Finding**

One grantee, Legal Assistance Foundation of Chicago, continued representation after July 31, 1996, in two class action suits (Bell and Woods, et. al. v. Commercial Credit Loans, Inc. And Wesco Insurance Company and Hill et. al. v. Erickson, hereafter referred to as Bell and Hill respectively.

Recommendation

LSC management should take appropriate action regarding 2 class actions in LAFC.

Management Response

LSC management agrees with this finding. We will treat this finding as a referral under A-50, and will follow-up accordingly.

3) **Finding**

Same as 2

Recommendation

LSC management should implement a program of periodic reporting by recipients on the status of class action suits involved in non-adversarial monitoring.

Management Response

LSC management agrees with the requirement that these matters be reported, and in anticipation of this issue, implemented an alternative system for such reporting on December 8, 1997.

4) **Finding**

In three instances, certain LSC regulations do not accommodate unique circumstances pertaining to juveniles or adults who are legally incompetent.

Recommendation

LSC management should review the regulations on alien eligibility, client attestations of citizenship, and prisoner litigations to consider recognizing certain special cases related to juveniles and adults judged to be incompetent.

Management Response

LSC management agrees with the finding. The Office of the General Counsel will evaluate the regulatory provisions included in this recommendation and make a recommendation to the LSC board of directors by April of 1998, in order to address the noted OIG recommendation.

- 5) As stated in the February 12, 1998 meeting, this finding will be deleted in the Final Roll-Up Report.

- 6) **Finding**

LSC management and LSC grantees cannot ensure that part-time employees of grantees do not work on restricted or prohibited cases while receiving LSC funds for their services.

Recommendation

LSC management should require that part-time employees of grantees account for all hours worked by date and time of day for time attendance records used for payroll purposes and account for cases and activities worked for the same hours by date and time in timekeeping records.

Management Response

We agree with the need for grantees to maintain sufficient records to demonstrate compliance with laws and regulations. As part of our scheduled modification of the timekeeping regulation, we will propose regulatory language to the Board of Directors that will implement the OIG recommendation or will mandate other specific controls equally effective in demonstrating compliance as those described in the OIG recommendation. We will present the proposed language to be considered by the Board at their meeting scheduled for June 1998.

Areas For Further Study

- 1) LSC management should revisit its requirements for client attestations of citizenship to address the remaining causes of OIG findings.
- 2) LSC management should consider revising Regulation 1630 to specify that employee benefits that are, in effect, indirect payments for prohibited or restricted activities may not be charged to LSC funds.

February 13, 1998

Page 4

LSC management agrees, and will take the above-noted matters under advisement for further review.

Please let me know if you have any questions or need additional information with regard to this matter.