

# Office of Inspector General

(This section was prepared by the OIG and included without change.)

## Overview

For FY 2016, the Office of Inspector General (OIG) is requesting \$5,100,000. The OIG contributes to LSC's success by providing objective reports and analysis to decision-makers to enhance oversight and proper management and increase accountability, responsibility, and transparency in LSC and grant recipient operations. This budget request supports a robust, high impact OIG, including maintenance of adequate staffing and training levels to continue ongoing audit, investigative, evaluation, and fraud prevention activities, providing Congressionally mandated oversight and helping to improve performance of the LSC's vital programs.

## OIG Mission

The OIG was established under the IG Act of 1978, as amended, as an independent office whose mission is to prevent and detect fraud, waste and abuse, to promote economy, efficiency, and effectiveness in LSC and grantee operations, and to help ensure compliance with applicable laws and regulations. LSC received \$375,000,000 in direct federal funding for FY 2015. Audits, investigations, and evaluations are the primary tools used by OIG to protect and maximize federal taxpayer dollars invested in civil legal aid. The work of the OIG meets the professional standards of the Council of Inspectors General on Integrity and Efficiency and other governmental and professional organizations.

## OIG Achievements

In FY 2014, the OIG provided independent reports and expert analysis to help LSC effectuate positive change and ensure the integrity of LSC and its grantee operations, including but not limited to:

- The OIG issued 88 formal recommendations for program and operations improvements to LSC and LSC grantees. The OIG issued nine audit reports, including seven audits of the adequacy of grantees' financial internal controls over approximately \$20.6 million in LSC grant funds. Management decisions sustaining questioned costs during FY 2014 amounted to more than \$259,000. The Corporation's 2013 financial statement audit was issued with no significant deficiencies; however, the contract auditors identified an opportunity for strengthening LSC's internal controls and operating efficiency.
- The OIG closed 28 investigations in FY 2014. Investigations involved matters such as fraud and financial irregularities by grantee employees, the unauthorized outside practice of law, time and attendance abuse, and the improper use of LSC funds. Cases arising from OIG investigations resulted in referrals for criminal action, federal debarment proceedings, sustained questioned costs of over \$21,000 and restitution to grantees of over \$11,000 in misspent funds.
- The OIG maintained a proactive fraud prevention program conducting 38 Fraud Awareness Briefings, three Fraud Vulnerability Assessments, three joint Fraud and Regulatory Vulnerability Assessments, and issuing fraud alerts. The OIG published the first "Fraud Prevention Guide for LSC Grantees," discussing various fraud schemes investigated by the OIG and providing grantee employees and financial managers with key fraud indicators and concrete suggestions to help prevent fraud.
- In 2013 the OIG received the Council of Inspectors General on Integrity and Efficiency Award for Excellence for the OIG's innovative regulatory vulnerability assessment program and in 2014 the LSC's Board of Directors passed a resolution to specifically recognize this OIG achievement.

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 (IPAs) under guidance of the OIG. This year the OIG reviewed 84 grant recipient audit reports and referred significant fiscal and compliance findings to LSC management for corrective action. Further, as the OIG is tasked with ensuring the quality of audits of LSC and its grantees, the OIG pursued a successful Quality Control Review (QCR) program. A total of 132 quality reviews have been completed under the program that has enabled us to identify deficiencies in IPA work (and led to the debarment of an IPA for faulty work), improve IPAs' compliance with applicable standards and OIG guidance, and improve the overall effectiveness and quality of LSC grantee audits.

The OIG also recommends revisions and updates to LSC regulations, policies and practices. In FY 2014, the OIG identified opportunities for improvements in LSC operations and policies in major management areas including:

- **Acquisition Management** – Where oversight and monitoring are vital to ensuring effective contracting and the safeguarding taxpayer dollars, the OIG has produced a series of recommendations and reviews. These included an original audit of consultant contracts (2009), a sole source contracting review (2013), procurement training recommendations (2013), a memorandum suggesting revisions to LSC's procurement and contracting policies and procedures (2014), and a follow-on audit of LSC's consultant contracts (2014).
- **Grants Management** – The OIG contributed to LSC grants oversight beyond its investigations and audits by commenting on regulatory changes to LSC's private attorney involvement (PAI) rule and identifying ways to ensure compliance and avoid interpretive difficulties. Additionally, the OIG recommended that LSC management collect and analyze more comprehensive compensation data for grantees' key employees in order to improve fiscal oversight and the effective and efficient use of grants funds.
- **Information Technology (IT)** – The OIG performed the first risk assessment of LSC's IT systems based on the National Institute of Standards and Technology standards, identifying significant deficiencies and technical vulnerabilities. The OIG also provided substantive comments in the development of LSC's Electronic Systems Usage policies.
- **Human Capital Management** – The OIG responded to LSC's requests for comments regarding the development of numerous important LSC policies, including those involving ethics and conduct, conflicts of interest, whistleblowers, and equal employment opportunity. Further, the OIG helped improve the Corporation's personnel recruitment efforts by suggesting LSC establish a permanent business relationship with the Office of Personnel Management to utilize its USAJOBS.gov website.

### Operational Improvements

Internally, management improvements combined with the implementation of new information management systems, and training are resulting in a higher performing OIG.

- **Audit Program:** The OIG is further aligning its work to focus on issues identified with LSC's Major Management Challenges. Under a new Assistant IG for Audit, the audit unit has reorganized and has hired skilled former government and non-government audit professionals. This has already resulted in increased production of grantee audits.
- **Business Systems:** Recently, the OIG has invested in information management systems tailored to increase efficiency and productivity, including: an audit management system used predominantly in federal OIG offices; continued development of an OIG intranet platform which has already improved the sharing of OIG information across component lines and improved coordination among OIG units; and the launch of a new, more user friendly website. Within the



platform, the OIG is continuing the development of an existing investigation case management system and further expansion of LSC grantee and risk information modules. The OIG relies on the services of an IT services consultant to ensure OIG systems are stable, current, and secure.

### Request Summary

For FY 2016, the Office of Inspector General is requesting \$5,100,000 or \$750,000 more than the FY 2015 appropriated amount of \$4,350,000. This would allow the OIG to continue robust oversight of LSC programs and operations, and performance of its statutorily mandated functions. For perspective, the OIG request is 1.05% (\$5.1 million/\$486.9 million) of the total LSC request, and the requested increase is 0.15% of the LSC FY 2016 request adopted by the LSC Board of Directors.

This request comes at the end of a multi-year operational plan that spent down carryover funds in support of OIG operations while not increasing annual budget requests. Given the highly labor-intensive nature of OIG's work and the need to pay for expanded investigative and audit coverage, these resources are necessary for OIG to meet its mission requirements. This funding amount is critical to bring OIG appropriations in line with current expenses, thereby maintaining stability in OIG planning, workforce and operations.

The \$750,000 increase is required to sustain base operations (\$400,000) and to support the continuation and development of existing OIG programs (\$350,000), including the comprehensive QCR program. Based upon our recent identification of critical IT security vulnerabilities at LSC, the high risk nature of IT, and the need for ensuring confidentiality in providing legal services, the OIG plans to expand its information security review to LSC grantees if funding is available to support the program. Funding below this level would significantly impact the OIG's ability to fulfill its mission and may require adjustments and possible eliminations in operational elements including: the depth and the breadth of OIG's oversight performance; decreases in travel (critical to the performance of OIG audits and investigations); significant cost cutting in programs, including the QCR and IT security reviews, and significant cost cutting in OIG IT infrastructure and support.

As seen in the chart this request level would be the first substantial OIG budget increase since FY 2009 and is in line with the relative growth of LSC's Management and Grants Oversight (MGO) from the FY 2009 budget to FY 2016 request level.

Historically, the LSC OIG budget is in line with other OIGs in the federal Inspector General community who have similarly sized entity budgets to LSC (\$250-\$500 million). The FY 2013 LSC OIG-to-entity budget ratio is below the group's average and falls generally in the middle of the comparison group.

OIG/MGO Funding Comparison FY 09-16				
FY		OIG		MGO
09	Appropriations	\$4,200,000	Appropriations	\$16,000,000
10		\$4,200,000		\$17,000,000
11		\$4,192,000		\$16,966,000
12		\$4,200,000		\$17,000,000
13		\$3,902,000		\$15,792,000
14		\$4,350,000		\$18,000,000
15		\$4,350,000		\$18,500,000
16	Request	\$5,100,000	Request	\$19,500,000

### FY 2016 Planned Activities

In FY 2016 the OIG will use its ongoing risk assessments and strategic planning to determine the assignment and further leveraging of OIG resources. Generally, the OIG allocates priority to the following areas of work: governance and accountability, fraud prevention and detection, statutory and regulatory compliance, LSC grants administration, LSC and grantee operations, and oversight of the grantee audit process. Resources will also be used to respond to requests from the Congress, the Board of Directors, LSC management and other interested parties.

A major component of the FY 2016 budget request is funding the OIG's operation of the LSC audit program. The OIG will continue to objectively audit LSC and grantee operations and review all LSC grant recipients' annual audits, including financial statements, internal controls, and compliance with mandated restrictions and prohibitions. The OIG refers significant audit findings to LSC Management for resolution and tracks corrective actions. The OIG continues to fund and oversee the annual audit of LSC's financial statements.

The OIG conducts investigations of criminal and civil fraud committed against LSC and its grant recipients, and operates a national fraud, waste and abuse reporting hotline. The OIG conducts compliance investigations, administrative inquiries, fraud vulnerability assessments, and fraud prevention briefings.

Further, the OIG will continue to improve effectiveness and efficiency in grants management, administration, and operation of LSC and its grantees through its reviews and advisories and will provide objective reviews on significant legislative, regulatory, management and policy initiatives affecting LSC.

If fully funded, the OIG will continue its comprehensive audit quality control program to ensure the quality of the IPAs' work. The OIG will expand its IT security vulnerability reviews to LSC grantee operations. Internally, the OIG will continue to promote effective operations, by further developing information management systems that facilitate the efficient production and timely delivery of OIG work, sustaining a secure and reliable IT environment, and ensuring our skilled employees meet professional standards through continuing professional education and training.

As required by the Inspector General Act of 1978, as amended, I, Jeffrey E. Schanz, Inspector General of the Legal Services Corporation, certify that the request includes \$60,000 to satisfy foreseeable OIG professional training requirements required to maintain the OIG professional credentials for FY 2016. The OIG also anticipates contributing \$15,000 to support the operations of the Council of the Inspectors General on Integrity and Efficiency.

The submitted budget request is necessary for the LSC OIG to adequately perform the legislative missions required by the Inspector General Act, as amended, and to provide objective, relevant, and timely reporting to the Congress and LSC on core management challenges and oversight issues, thereby increasing public confidence in the proper expenditure of limited LSC funds.

The OIG greatly appreciates the continuing support of the Congress and the LSC Board as it carries out its work.