

OFFICE OF INSPECTOR GENERAL

*SEMIANNUAL REPORT TO THE CONGRESS
OCTOBER 1, 2001 - MARCH 31, 2002*

<http://oig.lsc.gov/>

April 30, 2002

**TO THE BOARD OF DIRECTORS
OF THE LEGAL SERVICES CORPORATION (LSC)
AND
THE UNITED STATES CONGRESS**

This Semiannual Report on the activities of the Office of Inspector General of LSC covers the six-month period from October 1, 2001 through March 31, 2002. Section 5 of the Inspector General Act of 1978 requires that the Board of Directors, as the designated Federal entity head, transmit this report to the appropriate committees of the Congress within 30 days, together with its report commenting on the contents of the Report.

**Leonard J. Koczur
Acting Inspector General**

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EXECUTIVE SUMMARY

The OIG issued two audit reports on grantees' compliance with regulations governing relationships with entities that engage in prohibited activities. One grantee complied with the regulations, with one minor exception, but the other did not comply. A report providing an unqualified opinion on the Corporation's financial statements was also issued. (Page 2)

Two reports on Audit Service Reviews (ASRs) were issued. The ASRs determine whether the audits conducted by independent public accountants properly reviewed grantees compliance with restrictions and prohibitions. (Page 3)

Four Client Trust Fund Inspection Reports were issued. (Page 7)

INTRODUCTION

Corporate Structure

The Board of Directors of the Legal Services Corporation (LSC or the Corporation) is composed of 11 members appointed by the President of the United States with the advice and consent of the Senate. The Board sets general policy and oversees the management of the Corporation. The Inspector General reports directly to the Board in its capacity as head of the entity. The Board also appoints the President of the Corporation, who serves as the principal management official of the Corporation.

Grant-Making Activities

The Corporation is authorized by Congress to make grants and contracts to support the provision of civil legal assistance to clients who meet eligibility requirements. The Corporation makes grants to entities that, in turn, provide legal assistance to indigent persons throughout the United States, Puerto Rico, the U.S. Virgin Islands, Guam, and Micronesia.

Certification of Independence

Inspector General operations in this period were free of personal or organizational impairment.

AUDITS

During this period, the Office of Inspector General issued audit reports on compliance with program integrity regulations by the Lane County Legal Aid Service and Central Virginia Legal Aid Society. The OIG also issued the report on the Fiscal Year 2001 audit of the Corporation's financial statements and two Audit Service Review (ASR) reports. The OIG audit function underwent a peer review during this reporting period.

PROGRAM INTEGRITY AUDITS

The OIG is reviewing grantee operations to determine if they are in compliance with LSC requirements on relationships with entities that engage in prohibited activities. The audit reports on Lane County Legal Aid Service and Central Virginia Legal Aid Society are the latest in a planned series of reports.

Lane County Legal Aid Service

Between July 1, 1999 and June 30, 2001, Lane County Legal Aid Service did not comply with the program integrity requirement of Part 1610. Specifically, the grantee:

- Did not maintain objective integrity and independence from a legal organization that engaged in prohibited activities;
- Allowed a full-time attorney to work on a class action suit for the other organization while in the grantee's office; and
- Certified compliance with Part 1610 without the required supporting report.

A limited review of cases filed in the state circuit courts in Lane County and adjacent counties indicated that the cases did not involve restricted or prohibited activities. However, we identified a relatively minor case reporting deficiency that is not directly related to program integrity. The grantee did not report seven cases filed in court by its attorneys as required by 45 CFR Part 1644.

Central Virginia Legal Aid Society

Except for a relatively minor subsidization, Central Virginia Legal Aid Society complied with Part 1610 between January 1, 2000 and September 30, 2001. During part of this period the grantee had a relationship with the Legal Aid Justice Center (Justice Center) an organization that engages in restricted activities. The grantee maintained objective integrity and independence from the Justice Center. The two organizations were legally separate entities and maintained physical and financial separation. The grantee leased office space for its Charlottesville branch office from the

Justice Center. The rent paid was reasonable and did not subsidize the Justice Center. To a limited extent, the grantee subsidized the Justice Center by providing free client intake services.

In addition, the grantee:

- Did not have required certifications for part time employees; and
- Used a small amount of LSC grant funds to pay prohibited dues.

The OIG reviewed 40 cases that had been filed with the courts. There were no indications that these cases involved restricted or prohibited activities.

CORPORATE FINANCIAL STATEMENT AUDIT

The OIG issued the audit report on the Corporation's Fiscal Year 2001 financial statements. The report provided an unqualified opinion on LSC's financial position as of September 30, 2001. No material weaknesses in internal controls over financial reporting and its operation were identified in this report.

AUDIT SERVICE REVIEW REPORTS

Audit Service Reviews (ASRs) examine the working papers of the independent public accountants (IPAs) who conduct the annual financial and compliance audits of LSC grantees. The objective of the ASRs is to determine if the independent public accountants properly reviewed grantee's compliance with 14 restrictions and prohibitions imposed by Congress.

The OIG issued two ASR reports during this period. One review found that the IPA adequately tested the grantees' compliance with LSC regulations and that the audit report provided reasonable assurance that the grantee complied with LSC regulations. The other review found that the IPA did not adequately test compliance for 11 of the 14 regulations, and the OIG required the IPA to complete additional testing to correct the deficiencies. The OIG reviewed the IPA's additional work and determined that the corrective action was sufficient to provide reasonable assurance that the recipient complied with LSC laws and regulations.

PEER REVIEW

The President's Council on Efficiency and Integrity mandates that each OIG audit function be subject to a peer review by another OIG organization every three years. The Pension Benefit Guaranty Corporation (PBGC) OIG reviewed the audit operations of the LSC OIG this period. The PBGC OIG determined that the LSC OIG's quality control system for audit operations was in place and operating effectively and that applicable auditing standards were followed.

AUDIT REPORTS

Open at beginning of reporting period	1
Issued during reporting period	3
Closed during reporting period	2
Open at end of reporting period	2

RECOMMENDATIONS TO LSC GRANTEEES

Pending at beginning of reporting period	1
Reported during this period	15
Closed during this reporting period	1
Pending at end of reporting period	15

RECOMMENDATIONS TO LSC MANAGEMENT

Pending at beginning of reporting period	0
Reporting during this period	0
Closed during report period	0
Pending at end of reporting period	0

AUDIT SERVICE REVIEW REPORTS

Pending at beginning of reporting period	1
Issued during reporting period	2
Closed during reporting period	3
Pending at end of reporting period	0

AUDIT SERVICE REVIEW REPORTS ISSUED

Hudson County Legal Services Corporation
 Tidewater Legal Aid Society

INVESTIGATIVE ACTIVITIES

One case was opened during this reporting period and one case was closed.

During the reporting period, the OIG maintained a Hotline. Sixty-four telephone complaints were received and resolved.

INVESTIGATIVE CASES

Open at beginning of period	1
Opened during the period	1
Closed during reporting period	1
Open at end of the period	1
Recommendations to MGT for Corrective Action	0

PROSECUTORIAL ACTIVITIES

Referred this period	0
Declined prior and this period	0
Pending	0
Convictions	0

INSPECTION ACTIVITIES

Four reports were issued during this reporting period. The inspections found that the grantees were in general compliance with LSC requirements but improvements in internal controls were needed.

CLIENT TRUST FUND INSPECTION REPORTS

Open at beginning of reporting period	0
Issued during reporting period	4
Closed during reporting period	4
Open at end of reporting period	0

REPORTS ISSUED

Nassau/Suffolk Law Services Committee, Inc.
South Middlesex Legal Services, Inc.
Legal Aid Society of Greater Cincinnati
Southern Minnesota Regional Legal Services, Inc.

LEGISLATIVE AND REGULATORY REVIEW

LEGAL REVIEW

The OIG reviewed and commented on statutory and regulatory provisions affecting LSC and/or the OIG.

SUBPOENA ENFORCEMENT ACTIVITIES

Two court cases resulting from the OIG's issuance of subpoenas remain pending. These cases arose out of the OIG's assessment of the accuracy of grantees' 1999 case statistical data.

In the first case, two grantees, citing ethical rules and attorney-client privilege, declined to provide data the OIG requested. The OIG subpoenaed the data and sought and obtained enforcement of the subpoenas in the U.S. District Court for the District of Columbia. This order was affirmed on appeal and the case was remanded. The District Court appointed a special master to hear particularized claims of attorney-client privilege by the grantee that took the appeal, Legal Services for New York City (LSNY), and that process is on hold pending the outcome of a related case discussed below.

The second case was brought by subgrantees and an affiliated organization of LSNY in the U.S. District Court for the Southern District of New York. Summary judgment motions are pending.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 2002**

	NUMBER REPORTS	QUESTIONED COSTS	UNSUPPORTE D COSTS
A. For which no management decision has been made by the commence-ment of the reporting period.	0	\$0	\$0
B. Reports issued during the reporting period	0	\$0	\$0
Subtotals (A + B)	0	\$0	\$0
LESS:			
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	0	\$0	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

TABLE II

**Audit Reports Issued with Funds to be Put to Better Use
for the Period Ending March 31, 2002**

	NUMBER REPORTS	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0
B. Reports issued during the reporting period	0	\$0
Subtotals (A + B)	0	\$0
LESS:		
C. For which a management decision was made during the reporting period:	0	\$0
(i) dollar value of recommendations that were agreed to by management	0	\$0
(ii) dollar value of recommendations that were not agreed to by management	0	\$0
D. For which no management decision had been made by the end of the reporting period	0	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0

TABLE III

**Index to Reporting Requirements
of the Inspector General**

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

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