

**OFFICE
OF
INSPECTOR GENERAL**

***Semiannual Report to the Congress
October 1, 1999 - March 31, 2000***

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

April 30, 2000

**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, 1999 through March 31, 2000. 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.

E. R. Quatrevaux
Inspector General

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EXECUTIVE SUMMARY

Four audit reports were issued, two of which examined grantee Case Statistical Reports. Another audit reviewed the costs incurred by a former grantee. (Page 2)

A report was issued on the Corporation's annual financial audit for the fiscal year ending September 30, 1999, and received an unqualified opinion. (Page 3)

Eight Audit Service Review reports were issued. Six reviews found some deficiencies in the compliance checking by independent public accountants auditing LSC grantees. (Pages 2-3)

The Assessment of 1999 Case Statistical Data was begun by collecting data from a sample of grantees. Two grantees refused to provide the names of clients as requested, citing privilege and local bar rules. A subpoena was issued late in the reporting period. (Page 3)

A former employee of a Nevada grantee plead guilty to a charge of Theft of Government Property. (Page 6)

Three reports of Client Trust Fund Inspections were issued. (Page 6)

INTRODUCTION

Corporate Structure

The Board of Directors of LSC ("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 for the provision of civil legal assistance to clients who meet eligibility requirements. The Corporation makes grants to entities which, 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

The OIG issued four audit reports during the reporting period. Two audits examined the accuracy of grantee Case Statistical Reports, and another reviewed the costs incurred by a former grantee. The report of the Audit of the Corporation for Fiscal Year Ending September 30, 1999 was also issued. Five Audit Service Reports were issued, and the Congressionally-mandated Assessment of the 1999 Case Statistical Data was initiated.

Review of Case Statistical Reporting

Final audit reports on 1998 case statistical data were issued for Legal Services of North Texas and New Orleans Legal Assistance Corporation.

The North Texas grantee overstated closed cases in its 1998 report to LSC by an estimated 7,755 cases (34 percent) and open cases by an estimated 206 cases (8 percent). About 74 percent of the overstatement in closed cases occurred because the grantee did not obtain and record the name of clients served through its telephone "hotline." The remaining closed case overstatement was attributable to: 1) reporting cases when no legal services were provided; 2) cases that should have been closed in prior periods; and 3) cases that were duplicates of other cases.

The New Orleans grantee overstated closed cases in its 1998 report to LSC by an estimated 428 cases (7 percent) and open cases by an estimated 891 cases (23 percent). Closed cases were overstated because: 1) cases were reported as closed in 1998 even though legal activity ceased prior to 1998; 2) no legal services were provided for some cases; and 3) some case files were not found.

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 grantees' compliance with 14 restrictions and prohibitions imposed by Congress.

The OIG issued eight ASR reports during the period. Six ASRs found some deficiencies in the IPAs' compliance testing. Two of the reviews found that the IPAs adequately tested the grantees' compliance with the LSC regulations and that the audit reports provided reasonable assurance that the grantee complied with the LSC regulations.

The OIG required IPAs to correct the testing deficiencies found in the ASRs. During the period, IPAs performed additional test work for 11 audits (six from this period and five from last reporting period) that were deficient. The OIG determined that the additional test work was acceptable and the audit reports then could be relied on to provide reasonable assurance that the grantees complied with the LSC regulations.

Corporate Audit

The OIG issued an audit report on LSC's Fiscal Year 1999 financial statements. An independent public accounting firm, under contract with the OIG, issued an unqualified opinion on LSC's statement of financial position as of September 30, 1999, and on the related statements of operations and cash flows for the year then ended. The OIG confirmed that the accounting firm performed the audit in accordance with Government Auditing Standards and that the audit work provided a reliable basis for the opinion on LSC's fiscal year 1999 financial statements.

Assessment of 1999 Case Statistical Data

Congress directed the Inspector General to assess the accuracy of the 1999 case statistical data provided by LSC grantees, and report to the Senate and House Appropriations Committees no later than July 30, 2000. During this reporting period, the OIG developed the project methodology for the Assessment of the 1999 case statistical data and obtained case data from a sample of 60 grantees. Two grantees declined to provide the requested data citing local rules of professional responsibility and the attorney-client privilege. The OIG issued subpoenas to both recipients to compel them to provide the data. In addition, the Corporation notified the grantees that their LSC funding would be suspended as recommended by the OIG.

The Assessment results will be presented during the next reporting period.

Other Publications

Assessment of Compliance with Restrictions and Compliance Oversight System

The OIG reported on grantee compliance with the restrictions on the provision of legal services and the effectiveness of the compliance oversight system. In the three years since the 1996 appropriation established the new compliance system, grantee auditors reported only three findings of noncompliance with practice restrictions. All occurred shortly after the effective date of the restrictions.

Sixty Audit Service Reviews of the 1997/1998 audits conducted by independent public accounting firms determined that the grantee audits adequately checked compliance with the practice restrictions 88 percent to 97 percent of the time.

Audit Bulletin

The OIG issued an audit bulletin which informed grantees and IPAs of potential problems with grantee audits and provided suggestions on mitigating them.

AUDIT REPORTS

Open at beginning of reporting period	12
Issued during reporting period	4
Closed during reporting period	4
Open at end of reporting period	12

AUDIT SERVICE REVIEW REPORTS

Open at beginning of reporting period	5
Issued during reporting period	8
Closed during reporting period	13
Pending at end of reporting period	0

RECOMMENDATIONS TO LSC GRANTEES

Pending at beginning of reporting period	62
Reported during this period	10
Closed during reporting period	25
Pending at end of reporting period	47

RECOMMENDATIONS TO LSC MANAGEMENT

Pending at beginning of reporting period	9
Reported during this period	3
Closed during reporting period	1
Pending at end of reporting period	11

Prior Period Recommendations

There are eight open recommendations to LSC management from prior reporting periods. They are as follows:

Report on Inspection of Alternative Work Arrangements. Seven recommendations to improve LSC's alternative work arrangements program remain open.

Legal Aid Bureau, Incorporated (Maryland) (Recipient No. 321016) - Compliance with Selected Regulations Performance Audit. One recommendation that LSC management should review the applicability of the regulation on alien eligibility to children in long-term foster care remains open.

Case Statistical Audit Reports Issued

Legal Services of North Texas (744030)

New Orleans Legal Assistance Corporation (619030)

Audit Service Review Reports Issued

Cook County Legal Aid Foundation

Neighborhood Legal Services (New York)

Advice and Referral Center (New Hampshire)

Legal Services of Southern Piedmont (North Carolina)

Contra Costa Legal Services Foundation (California)

Legal Aid Foundation of Los Angeles

Legal Services of Northwest Minnesota

San Francisco Neighborhood Legal Assistance Foundation

INVESTIGATIVE ACTIVITIES

Three cases were opened, and eight cases closed in this reporting period. The OIG Hotline was contacted thirty-six times.

In a previous referral involving the misappropriation of approximately \$40,000, the former employee of a Nevada grantee plead guilty to a charge of Theft of Government Property.

A grantee executive director admitted altering documents in a sample of files selected for review by its independent auditor during its annual audit. The U.S. Attorney declined prosecution.

The local District Attorney declined to prosecute in a case involving misappropriation of funds by former employees of a Mississippi grantee.

Unauthorized use of a telephone calling card resulted in a guilty plea by a former employee of a Minnesota grantee, and restitution was ordered.

Client Trust Fund Inspections

Three reports of client Trust Fund Inspections covering 14 site visits were issued. The inspections found that the grantees were in general compliance with LSC requirements, but other matters beyond the scope of these inspections were referred to LSC management as potential compliance issues.

INVESTIGATIVE CASELOAD

Open at beginning of reporting period	21
Opened during reporting period	3
Closed during reporting period	8
Open at end of reporting period	16

INVESTIGATIONS OPENED

Relating to LSC	0
Relating to LSC Grantees	3

CLIENT TRUST FUND INSPECTIONS

Open at beginning of reporting period	1
Opened during reporting period	3
Closed during reporting period	3
Open at end of reporting period	1

RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION

Open from previous period	0
Reported during this period	1
Closed during this period	0
Open at end of reporting period	1

PROSECUTIVE ACTIVITIES

Referred for prosecution this reporting period	1
Prosecution declined (from prior and current period referral)	2
Pending Action	1
Convictions	0

LEGISLATIVE AND REGULATORY REVIEW

Statutory Recommendation

During the reporting period, the OIG was informed by an independent public accountant (IPA) that a grantee denied the IPA unrestricted access to information during the IPA's annual financial statement audit of the grantee. The grantee claimed that until it received guidance from the state supreme court on the issue, it was barred from providing unrestricted access to the IPA under the attorney-client privilege and client confidentiality under local rules of professional responsibility.

It is essential that IPAs gain access to needed information. The system for routine monitoring of grantee compliance with laws and regulations relies on the annual audits of grantees conducted by the IPAs. Because this is not the first time the OIG has encountered a grantee's denial of access to its IPA, and because the OIG believes that such denials present a serious challenge to the existing system for compliance oversight, the OIG submitted draft statutory language to the appropriate congressional committees. In the OIG's view, the statutory language proposed would clarify, but not alter, the current law governing IPA access to grantee records.

Assessment of 1999 Case Statistical Data - Subpoenas

As stated earlier in this report (page 3), the IG issued subpoenas to compel production by two grantees of data required to complete this Assessment. The grantees refused to comply with the subpoenas. On behalf of the OIG, the U.S. Department of Justice will be seeking enforcement of the subpoenas in Federal district court.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 2000**

	NUMBER 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	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, 2000**

	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	8
Section 5(a)(1)	Significant problems, abuses, and deficiencies	3
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	8
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	5
Section 5(a)(4)	Matters referred to prosecutive authorities	7
Section 5(a)(5)	Summary of instances where information was refused	3
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	5
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	9
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	10
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.