

Office of Inspector General

Semiannual Report to the Congress
April 1, 2003 – September 30, 2003

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

October 31, 2003

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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 April 1, 2003 through September 30, 2003. Section 5 of the Inspector General Act of 1978 requires the Board of Directors, as the designated Federal entity head, to 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

A report on the Corporation's annual financial audit and a report summarizing the grantees' financial audits were issued. The OIG issued two audit reports on grantees' compliance with regulations governing relationships with entities that engage in prohibited activities. Reports on two other audits are being drafted. (Page 2)

The OIG has undertaken a project to evaluate mapping technology as a legal services management tool. Mapping enables operational data to be presented on a map by geographic location. Our approach is a pilot project done in cooperation with LSC's two grantees in Georgia - Atlanta Legal Aid Society and Georgia Legal Services Program. The technical work of producing maps and evaluating their usefulness has been completed. An evaluation report is being drafted. (Page 6)

Three Client Trust Fund Inspection Reports and four Audit Services Review Reports were issued. (Page 9)

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 reporting period, the Office of Inspector General (OIG) issued a summary report on the Recipient Audit Reports for year 2002. Two program integrity audit reports were issued. The OIG also published the audit report on the Corporation's fiscal year 2002 financial statements. Four Audit Service Review (ASR) reports were issued.

SUMMARY REPORT ON RESULTS OF RECIPIENTS' AUDITS

The OIG issued a report summarizing the results of 187 recipient audit reports for the year ended December 31, 2002. These reports contained 77 findings. The OIG reviewed the findings and concluded that 47 were significant and referred them to LSC management for follow-up. The largest number of findings related to internal control weaknesses such as outdated or absent written policies and procedures or weaknesses over cash receipts and disbursements. The second highest number of findings was for missing or unsigned documents. None of the findings reported that the grantees failed to comply with prohibitions and restrictions on the provision of legal services. This report is a summary of the work done by the IPAs and, therefore, does not meet the criteria for inclusion in the accompanying statistical summary of audit reports issued.

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 established in 45 CFR Part 1610. This regulation requires grantees to maintain objective integrity from any organization that engages in activities prohibited by the LSC Act, LSC appropriations acts, and LSC regulations. To do so, grantees must be legally separate from such organizations, not transfer LSC funds to them, not subsidize any restricted

activities with LSC funds, and maintain physical and financial separation from them. An exception applies for transfers of LSC funds solely for private attorney involvement (PAI) activities. These audits are termed Program Integrity Audits.

During this reporting period, the OIG issued audit reports on Central Minnesota Legal Services and Legal Services of South Central Michigan. Reports were being drafted for California Rural Legal Assistance and Legal Aid Society of Greater Cincinnati.

CENTRAL MINNESOTA LEGAL SERVICES

The grantee generally complied, with one exception, with the program integrity regulation between July 1, 2001 and May 31, 2003, the period covered by our review. During this period, Central Minnesota Legal Services did not maintain adequate physical separation from a legal organization that engages in LSC–restricted activities. In one of three shared offices, the demarcation between the grantee’s office space and the organization engaged in prohibited activities was insufficient to maintain physical separation. The OIG made two recommendations to correct this problem. The grantee implemented one recommendation and will submit a corrective action plan to address the other recommendation. In addition, the OIG identified an internal control that needed to be implemented to meet timekeeping requirements. During the audit, the grantee implemented a process that corrected the problem.

LEGAL SERVICES OF SOUTH CENTRAL MICHIGAN

The grantee did not fully comply with the program integrity requirement of Part 1610. The grantee did not maintain objective integrity and independence from an organization that engaged in LSC–restricted activities. Although program integrity requirements were not met, the grantee did not engage in restricted activities nor were LSC funds used to support such activities. The grantee’s corrective action plan was insufficient to close the recommendation. The OIG referred the report to LSC management for audit follow-up.

CORPORATE AUDIT

The Fiscal Year 2002 audit of the Corporation was issued. The report provides an unqualified opinion on LSC's financial statements as of September 30, 2002. This means there is reasonable assurance that the statements are free of material errors. No material weaknesses in the internal controls over financial reporting and operations were identified during the audit.

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

Four ASRs were issued this reporting period. All four reports found deficiencies with the IPAs' testing of compliance with certain regulations and inadequate workpaper documentation. The OIG required the IPAs to ensure that all future audits will meet the standards of the OIG Compliance Supplement.

SUMMARY OF AUDIT ACTIVITIES

Audit Reports

| | |
|---------------------------------------|---|
| Open at beginning of reporting period | 0 |
| Issued during reporting period | 3 |
| Closed during reporting period | 2 |
| Open at end of reporting period | 1 |

Audit Service Review Reports

| | |
|--|---|
| Pending at beginning of reporting period | 0 |
| Issued during reporting period | 4 |
| Closed during reporting period | 4 |
| Pending at end of reporting period | 0 |

Recommendations to LSC Grantees

| | |
|--|---|
| Pending at beginning of reporting period | 0 |
| Reported during this period | 3 |
| Closed during this reporting period | 2 |
| Pending at end of reporting period | 1 |

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 Issued 4

- South Middlesex Legal Services
- Somerset Sussex Legal Services Corporation
- Legal Aid Society of Greater Cincinnati
- Prairie State Legal Services

Other Reports

| | |
|---|---|
| Results of Recipient Audit Reports for the Year Ended December 31, 2002 | 1 |
|---|---|

EVALUATION PROJECT

The OIG has undertaken a project to evaluate mapping technology as a legal services management tool. Mapping enables operational data to be presented on a map by geographic location. For example, client addresses can be plotted to show where clients are concentrated within a grantee's service area. This helps grantee managers evaluate the appropriateness of office locations and resource deployments.

Our approach is a pilot project done in cooperation with LSC's two grantees in Georgia – Atlanta Legal Aid Society and Georgia Legal Services Program. This project is evaluating mapping technology for its utility in supporting a wide range of stakeholder interests, including:

- 1) Access to legal services for the needy through identification of income-eligible population, clients served, and the under-served;
- 2) Grantee management information to support resource acquisition and planning, and placement of office locations and staff;
- 3) Program planning and oversight by various LSC components; and,
- 4) Strategic information for the LSC Board of Directors.

The project's primary objective is to determine the usefulness of geographic information systems for operational and strategic planning at the local and national levels and for reporting of grantees' accomplishments. A wide range of maps will be produced including ones that show income-eligible population locations, client locations and shifts in location over time, areas of intense demand, and low demand. Our goal is to identify and prototype the maps and information that will be valuable to decision-makers at various levels in the legal services environment. A report will be prepared for grantees and LSC management with maps and an analysis of how they can be used as a tool to improve services clients are provided.

The technical work of producing maps and evaluating their usefulness has been completed. An evaluation report is being drafted and will be issued next reporting period.

INVESTIGATIVE ACTIVITIES

One case was closed and one case was opened during this reporting period. The closed case involved allegations of improper activities by a grantee's staff attorney. The investigation did not substantiate the allegations.

The OIG maintains a telephone Hotline for the reporting of improper activities by LSC grantees or corporate staff. Complaints and allegations are also received via letters and e-mails. Thirty-seven telephone calls, four letters, and eight e-mails were received and resolved. Nine allegations required follow-up for resolution.

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 Management for Corrective Action | 0 |

PROSECUTORIAL ACTIVITIES

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

INSPECTION ACTIVITIES

Three inspection reports were issued during this reporting period. All three found that the grantee was not in full compliance with LSC Accounting Guide requirements. Specific suggestions were made for correcting these deficiencies and improving internal controls. The grantees agreed to implement the suggestions and the inspections were closed.

CLIENT TRUST FUND INSPECTION REPORTS

| | |
|---------------------------------------|---|
| Open at beginning of reporting period | 0 |
| Issued during reporting period | 3 |
| Closed during reporting period | 3 |
| Open at end of reporting period | 0 |

REPORTS ISSUED

Legal Aid Services of Oregon
Legal Aid of NorthWest Texas
Central Florida Legal Services

LEGISLATIVE AND REGULATORY REVIEW

LEGAL REVIEW

No regulations were under review this period.

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, Legal Aid Bureau of Maryland (LAB) and Legal Services of New York (LSNY), declined to provide data the OIG requested, citing ethical rules and attorney-client privilege. The OIG subpoenaed the data and sought and obtained enforcement of the subpoenas in the U.S. District Court for the District of Columbia. LAB provided the data but LSNY appealed the verdict. The court's 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 LSNY and that process is on hold pending the outcome of a related case discussed below.

The second case was brought against LSC, OIG, and LSNY by subgrantees and an affiliated organization of LSNY in the U.S. District Court for the Southern District of New York. On August 7, 2002, the Court ruled in the defendants' favor on cross motions for summary judgment. The Court held that the subgrantees are required to provide the requested case data to LSNY for LSNY to provide to the OIG. Section 509(h) of LSC's 1996 appropriation act, as amended, requires disclosure, as do the grant assurances and subgrant contracts. The Court rejected the argument that 509(h) was unconstitutional and that the IG Act was unconstitutional. The plaintiffs appealed the decision.

On May 22, 2003, the Court affirmed the decision of the District Court, finding that summary judgment was appropriate because 1) providing client names would not present a conflict with New York law, rules or regulations, and 2) the plaintiffs are required to provide the names under their contracts with LSNY.

On August 20, 2003, the plaintiffs filed a Petition for Writ of Certiorari with the United States Supreme Court. An opposition Petition is due in late October. The Solicitor General is handling this matter for the Inspector General.

We expect the Supreme Court to make a decision on accepting or rejecting the case no later than January 2004.

TABLE I

**Audit Reports Issued with Questioned Costs
for the Period Ending September 30, 2003**

| | | 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 September 30, 2003**

| | 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 | 10 |
| 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 | 12 |
| 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 | 12 |
| Section 5(a)(9) | Statistical table showing number of reports and dollar value of recommendations that funds be put to better use | 13 |
| 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.