LEGAL SERVICES CORPORATION

LSC

America's Partner For Equal Justice

SEMIANNUAL REPORTS TO THE CONGRESS FROM THE OFFICE OF INSPECTOR GENERAL & THE BOARD OF DIRECTORS

FOR THE PERIOD

APRIL 1, 2005 – SEPTEMBER 30, 2005

NOVEMBER 30, 2005

PREFACE

As required by the Inspector General Act, I am pleased to transmit the Semiannual Reports ("SAR") to the Congress from the Legal Services Corporation ("LSC") Office of the Inspector General ("OIG") and from the Board of Directors.

The OIG continues to assist the Corporation by auditing LSC functions and investigating concerns regarding fraud, waste, and abuse. As indicated in Table III of the OIG's report, I am pleased to note that the OIG reports no significant problems, abuses, or deficiencies, no instances where information was refused, and no significant management decisions with which the Inspector General disagrees. I am also pleased to report that LSC management has responded positively to every recommendation made by the OIG during this reporting period.

The past six months have seen significant activity by LSC. We initiated a new Loan Repayment Assistance Program to assist legal aid programs with the recruitment and retention of staff; began a pilot mentoring program to help develop a new generation of legal services leadership; researched and issued a major report entitled *Documenting the Justice Gap in America*; completed our fifth round of technology initiative grants; and continued with the ongoing work of assisting 140 legal services grantees around the country and monitoring their compliance with rules and regulations.

The Board continues to have some differences of opinion with the OIG regarding several of the matters reported in the SAR. In particular, with respect to the lease of the building at 3333 K Street, the Board believes the OIG's statements regarding the Landlord Build-Out Allowance are inaccurate in two respects: they wrongly report that LSC paid for items that should have been paid for with leasehold improvement funds, and they mistakenly state that the landlord wrongly charged a substantial amount to LSC's build-out allowance. In addition, the Board is concerned about the OIG's estimates of excess space costs and about the OIG's assessment of the financial implications of the lease. In June, the House

Subcommittee on Commercial and Administrative Law held a hearing regarding the lease. At that hearing, Chairman Chris Cannon raised issues regarding LSC's interest in the ownership of the building and about the relationship between LSC and Friends of LSC, which owns it. We are continuing to address the concerns raised by the Chairman and to ensure LSC's ultimate ownership of the building.

Indeed, with respect to each of the important issues mentioned above, and with the hope and expectation that by doing so we will be able to maintain our focus on achieving LSC's central mission of providing access to justice for indigent persons, the Board is committed to working in a cooperative spirit with the OIG to resolve our disagreements.

Finally, the Board notes that Management disagrees with the OIG's interpretation of the Trafficking Victims Protection Act. The Board believes that Management's interpretation of the Act is both defensible and plausible in view of the Act's purposes.

The Board recognizes and appreciates that, during the past three months, the Board and the OIG have made efforts to improve their working relationship and the OIG's working relationship with the Corporation. We welcome this progress and look forward to further improvement.

Frank B. Strickland
Chairman of the Board
Legal Services Corporation

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Semiannual Report to the Congress

April 1, 2005 – September 30, 2005

www.oig.lsc.gov

TO THE BOARD OF DIRECTORS
OF THE LEGAL SERVICES CORPORATION (LSC)
AND
THE UNITED STATES CONGRESS
A MESSAGE FROM THE INSPECTOR GENERAL

This is my third report since becoming Inspector General. I am pleased with the support the Office of Inspector General (OIG) has received from Congress and others in our effort to be independent-minded and to ensure that taxpayer dollars deliver maximum results. I am confident that as LSC responds to OIG recommendations to improve programs and operations, its stakeholders will have the trust and confidence they need to continue their support.

During this period LSC's congressional oversight subcommittee held a hearing regarding the OIG's report on the Financial Implications of the Lease at 3333 K Street. In that report, the OIG concluded LSC was leasing headquarters office space at unfavorable rates from its landlord, an organization established by LSC officials. Because of the difficulties arising out of the OIG's lease review, the Board of Directors subsequently was asked by LSC's oversight committees in the House of Representatives to work on improving relations between the Board and the OIG. Since then, the Board has stated it would address congressional concerns regarding the lease and its relations with the OIG. By April 2006, when the next semiannual report is published, I hope to report that progress continues to be made on both of these issues.

To keep our stakeholders informed, twice a year as required by law, the OIG submits this report to the Board of Directors, the agency head of LSC, for transmittal to the Senate and House of Representatives. In addition, throughout the year we keep Congress and the Board of Directors fully and currently informed by meeting with them and responding to their inquiries. In my statutory role as an independent Inspector General, it is my job to ensure that the Board of Directors and Congress have accurate, complete and timely information that fairly and objectively describes the condition of LSC programs and operations.

This Semiannual Report sets forth the significant activities and accomplishments of this office from April 1, 2005 through September 30, 2005. It details our efforts to oversee the system for routine monitoring of compliance with the restrictions on the use of LSC funds by grantees. It also reports our efforts to improve the effectiveness and efficiency of LSC. In this reporting period, the OIG issued four audit reports. We also opened 10 new investigations and closed eight investigations with one referral for prosecution.

I will continue to keep the Board of Directors and Congress fully and currently informed. I appreciate the support and interest expressed by Representatives Frank Wolf and Chris Cannon as well as members of their staffs. I also would like to thank Chairman Frank Strickland and the Board of Directors for its expressed willingness to improve working relations with the OIG, and President Helaine Barnett and her senior staff for continuing to work cooperatively to address mutual concerns. In particular, I would like to acknowledge Karen Sarjeant, Vice President for Programs and Compliance, and Charles Jeffress, Chief Administrative Officer, who joined LSC during this reporting period and who have helped the OIG work with LSC management to improve its programs and operations. Finally, I would like to welcome two new members to the Board of Directors—Mr. Thomas Fuentes and Ms. Bernice Phillips. I am committed to working cooperatively and building an effective relationship with the Board, Congress, LSC management and other LSC stakeholders.

Sincerely,

Kirt West
Inspector General
September 30, 2005

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OFFICE OF INSPECTOR GENERAL OVERVIEW

The LSC Office of Inspector General operates under the Inspector General Act of 1978, 5 U.S.C. app. 3. In 1988, Congress amended the IG Act and required LSC and about 30 other mostly smaller, federally funded entities to establish independent Offices of Inspector General.

The OIG has two principal missions: to assist management in identifying ways to promote efficiency and effectiveness in the activities and operations of LSC and its grantees; and to prevent and detect fraud and abuse. Thus, the OIG assists management in fostering, and overcoming obstacles to, good program management and in preventing future problems; and it must identify and report on current problems.

The OIG's primary tool for achieving these missions is fact-finding through financial, performance and other types of audits, evaluations and reviews, as well as investigations into allegations of wrongdoing. Its fact-finding activities enable the OIG to develop recommendations to LSC and grantee management for actions or changes that will correct problems, better safeguard the integrity of funds, and improve procedures or otherwise increase efficiency or effectiveness. The OIG is also tasked with ensuring the quality of audits of LSC and its grantees that are conducted by independent public accountants, and with reviewing proposed and existing regulations and legislation affecting the operations and activities of LSC and the programs it funds.

In addition to the missions shared by all OIGs, Congress, starting with LSC's FY96 appropriation, directed that an additional tool for monitoring grantee compliance with legal requirements is to be the annual grantee audits conducted by independent public accountants under guidance developed by the OIG, thus adding participation in monitoring compliance to the role of the OIG. In addition, Congress specified the OIG’s authority to conduct its own reviews of grantee compliance.

The OIG is headed by the Inspector General who reports to and is under the general supervision of the LSC Board of Directors. The IG has broad authority to manage the OIG, including setting OIG priorities and activities, and to hire OIG personnel, consultants and experts.

To ensure the objectivity of the IG, the IG Act grants the LSC IG the independence to determine what reviews are performed; to gain access to all documents needed for OIG reviews; to publish findings and recommendations based on OIG reviews; and to report OIG findings and recommendations to the LSC Board of Directors and to Congress. The IG Act also prohibits LSC from assigning to its IG any of LSC’s own "program operating responsibilities." This means that the OIG does not perform functions assigned to LSC by the Legal

Services Corporation Act, 42 U.S.C. §2996-2996l, other than those transferred to the OIG under the IG Act, and those otherwise assigned by Congress, for example in the FY 1996 Appropriations Act.

The IG must report serious problems to the LSC Board of Directors and must also report to appropriate law enforcement authorities, when through audit, investigation or otherwise, the IG has found that there are reasonable grounds to believe that a crime has occurred. The OIG is not an "arm" of the Congress, as is the Comptroller General, but is required by law to keep the Congress informed through semiannual reports and other means. The IG also provides periodic reports to the Board and management of LSC and occasionally to the Boards of Directors and management of LSC grantees. Some of these reports will be specific (e.g., an audit of a particular grantee or an investigation of a theft), while others will be of more general interest to management.

Although the OIG is not a part of LSC management, it also is not an adversary of LSC management. To be effective, the OIG works cooperatively with the Board and management, seeks their input prior to choosing topics for OIG review, and keeps them informed of OIG activities. Within their different statutory roles, the OIG and management of LSC share a common commitment to improving the federal legal services program and increasing the availability of legal services to the poor.

IDENTIFYING MAJOR MANAGEMENT CHALLENGES

In our last report, we identified that one of our goals for the upcoming reporting period would be to work with LSC management to identify major challenges and obstacles faced by LSC. We explained that over the years, most OIGs have reported these issues to their agency heads and Congress to alert them to the challenges facing their agencies. Even though the law does not specifically apply to LSC it is a good business practice for the OIG to inform the Board of major management challenges.

Since our last report, LSC management is in the process of developing its draft Strategic Directions 2006-2010 document. Considering this fact and the impact LSC strategic planning will have on the identification of major management challenges by the OIG, we are delaying identifying challenges until the Strategic Directions document is finalized.

STRATEGIC PLANNING AND RISK ASSESSMENT

The OIG is also conducting its own strategic planning process to expand the OIG planning horizon from 2006 through 2010 and incorporate the Government Performance and Results Act, the President’s Management Agenda and High Performing Organization principles. As part of that effort, we held a meeting of all OIG staff to conduct a risk assessment.

The assessment attempted to capture all significant risks to LSC and grantee programs and activities that expose assets to fraud, waste, abuse and mismanagement including the potential that operations might not be performed as economically, efficiently or effectively as possible. We identified risks that are still valid from prior OIG assessments, as well as new risks, including human capital, financial management, and several other areas.

The OIG expects to align our plan with LSC's new strategic plan so our work will assist the Board, Congress and LSC management in achieving organizational goals.

AUDITS

LANDLORD BUILD OUT ALLOWANCE FOR LSC HEADQUARTERS SPACE

As a result of the OIG's review of LSC's lease at 3333 K Street, the OIG conducted a limited scope review of the accounting of the up to $2 million landlord tenant improvement allowance LSC was supposed to receive pursuant to its lease with the Friends of Legal Services Corporation.

The OIG was unable to determine how much of the up to $2 million of build out funds had been used by LSC because LSC did not have adequate accounting records and documentation for its leasehold improvement expenses. The OIG was able to determine that LSC may have paid approximately $200,000 for items that should have been paid for with the leasehold improvement funds. Also, records indicated that almost $400,000 charged by the landlord to LSC's allowance of up to $2 million may not have been LSC leasehold improvements.

The OIG recommended that LSC obtain from the landlord a full and detailed accounting of all costs associated with the leasehold improvements, conduct a detailed analysis of the accounting, and recoup from the landlord any payments made by LSC that should have been paid using the leasehold improvement allowance. At the end of the reporting period, LSC outlined the actions taken to close out OIG recommendations, and the OIG will evaluate the proposed actions to determine if they are sufficient to close out the recommendations.

LSC'S HEADQUARTERS OFFICE SPACE NEEDS

The OIG found that because a space needs assessment was not performed before entering into a 10-year lease, LSC did not know how much space was needed to accomplish its mission. Therefore, LSC may be renting significantly more space than is needed. Using the General Services Administration (GSA) guidelines for a typical government organization, LSC may be overpaying for its space needs by as much as $7 million over LSC's 10-year lease. However, until a space study has been completed to determine actual space needs, the actual amount of overpayment, if any, can not be determined.

Our report recommended that LSC management commission a space needs study to be conducted in a manner similar to that contained in the GSA guidelines. Should the space needs study indicate that LSC has excess space, LSC should sublease the space in a manner that reduces LSC's overall rent costs. Although LSC management disagreed with our analysis, they generally agreed to implement the recommendations. During the course of our audit, LSC took a positive step by subleasing 2,139 square feet of space on the first floor. The OIG will continue to track these significant recommendations until resolved.

AUDIT SERVICE REVIEWS (ASRs)

The OIG is responsible for the oversight of the Independent Public Accountants (IPAs) who are selected by the grantees to perform annual audits, which among other things report whether the grantees comply with LSC regulations. To fulfill this oversight responsibility, the OIG conducts ASRs which are reviews of the audit documentation of selected IPAs to determine whether they adequately tested the grantee's compliance with LSC regulations.

The OIG is currently conducting a series of 14 ASRs in 2005 using OIG staff instead of contractors. Our work to date has indicated that many more ASRs need to be performed on an annual basis by the OIG in order to ensure that IPA work is meeting Congressional requirements and serving LSC and grantee needs. In addition to ensuring that the compliance work of the grantees' IPAs is complete and meets standards, we are assessing the entire review process and the Compliance Supplement guidance provided by the OIG for use by the IPAs. Based on this assessment, we will make necessary changes to the overall program in order to provide greater assurance of grantee compliance. Field work for 10 of the 14 reviews was completed during this reporting period. The remaining four visits are scheduled for early next quarter. Reports on the results of the 14 ASRs and modifications to the Compliance Supplement will be issued next period.

FY 2004 LSC CORPORATE AUDIT

The OIG transmitted the FY 2004 Financial Statement Audit Report to the LSC Board of Directors. The audit was conducted by an independent certified public accounting firm and was performed in accordance with generally accepted auditing standards, as well as the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the Unites States.

The Independent Auditor's Report stated that LSC's financial statements present fairly, in all material respects, the financial position of LSC as of September 30, 2004 and September 30, 2003 and the results of its operations and changes in its fund balance for the years then ended, were in conformity with generally accepted accounting principles. The Independent Auditor's Report on Compliance and Internal Control disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. This Report also noted no matters involving the internal control over financial reporting and its operation that were considered to be material weaknesses.

The OIG reviewed the Independent Auditor's Report and related audit documentation and inquired of their representatives. Our review disclosed no instances in which the Independent Auditor's Report did not comply, in all material respects, with generally accepted government auditing standards.

LSC OIG PEER REVIEW OF EEOC OIG

In accordance with the same standards and guidelines mentioned above, the LSC OIG conducted a peer review of the Equal Employment Opportunity Commission's OIG. LSC OIG auditors reviewed a sample of EEOC OIG reports, issued a draft report for comment by EEOC OIG management, and issued a final peer review report during this reporting period.

Audit Reports

Open at beginning of reporting period	2
Issued during reporting period	4
Closed during reporting period	3
Open at end of reporting period	3

Recommendations to LSC Grantees

Pending at beginning of reporting period	0
Issued during reporting period	0
Closed during reporting period	0
Pending at end of reporting period	0

Recommendations to LSC Management

Pending at beginning of reporting period	0
Issued during reporting period	10
Closed during reporting period	0
Pending at end of reporting period	10

OTHER REVIEWS

FINANCIAL IMPLICATIONS OF LSC'S HEADQUARTERS LEASE

After hearing concerns from Congress and OIG staff as well as members of LSC management, the OIG conducted a review of the financial implications of the 3333 K Street lease for LSC headquarters that was entered into in 2002 for a 10-year period beginning in June 2003. Two independent appraisals assessed the lease as well as information on other costs related to the lease at, and the move to 3333 K Street from LSC's previous location. The purpose of the report was to provide information to assist the LSC Board in determining any future actions regarding LSC's headquarters lease.

Based on the two appraisals, the OIG calculated LSC will overpay between $1.23 million and $1.89 million in rent over a 10-year period as a result of paying above market rent. Based on information provided by the appraisers, the OIG also calculated that LSC could have saved at least $680,000 over this 10-year period by remaining in its existing space. Also, LSC would not have incurred $440,000 in costs associated with the move. In addition, the OIG calculated that LSC may be due a rent credit because it was charged for 45,000 square feet when it only occupied 42,852 square feet from June 2003 until late 2004. The LSC Board by unanimous vote has twice disagreed with OIG's report on the lease.

SAFETY AND SECURITY REVIEW

The OIG is currently working on a Safety and Security Review of LSC headquarters. As part of this review, three safety concerns were identified and forwarded to LSC management for corrective action. Two of the three concerns were corrected by the landlord at LSC's request. The third issue is pending corrective action.

AMTRAK PEER REVIEW OF LSC OIG

Amtrak's OIG conducted a peer review of the OIG. Amtrak OIG conducted the review in accordance with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). The peer review tested compliance with the OIG's system of quality control and included a review of OIG audits.

In the Amtrak OIG's opinion, the system of quality control in effect for the period covered, October 1, 2003, through September 30, 2004, was designed in accordance with the quality standards established by the PCIE and was being complied with for that year and provided the OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. Based on the peer review, the Amtrak OIG issued the OIG an unqualified opinion on our system of audit quality control.

INVESTIGATIONS

The OIG opened ten investigations during the reporting period. There are six cases that involve theft of funds or property; three embezzlement cases; and one investigative project to review grantee financial risk.

During this period, the OIG opened a loss prevention initiative to review financial vulnerability of LSC grantee operations. Based on information gained from the Hotline, the Independent Public Accountant financial reports, and other sources of referrals, the OIG will conduct a limited field review to ensure adequate safeguards and internal controls are in place to prevent criminal activities.

There were six cases that pertain to theft of funds or property from LSC grantee locations. The OIG opened and closed five of these investigations. One investigation is pending criminal prosecution. On this case it was determined that a building cleaning service employee provided access to the perpetrator who stole cash left by a client for deposit in the client trust funds. The perpetrator was arrested by local authorities and is awaiting trial.

During this reporting period, on a previously reported embezzlement investigation, two local jurisdiction search warrants and a warrant for the subject's arrest were issued. The subject fled to another state where an arrest was made pursuant to the warrant. The subject is now awaiting trial.

Operationally, OIG investigations issued and served four Inspector General (IG) subpoenas in conjunction with an embezzlement investigation.

During this period, the OIG hired a new investigator. To better acclimate the new investigator into the Inspector General environment, the investigator attended two training courses at the Inspector General's Academy

The OIG maintains a Hotline for reporting illegal or improper activities by LSC grantees or corporate staff. For this reporting period, the OIG received 14 Hotline contacts. Six were referred to LSC for follow-up. The OIG Hotline also received two calls from victims of Hurricane Katrina, which affected phone service and closed local LSC-funded legal aid offices. Shortly after Katrina struck, OIG investigators, who monitor the Hotline, were able to provide the callers with information directing them to available legal services.

FRAUD ALERT DISTRIBUTED TO GRANTEES

During this reporting period the Inspector General issued a fraud alert to all grantee Executive Directors on measures to detect and prevent losses from internal thefts. The guidance, which included concrete steps, was issued after receiving feedback from LSC grantees and with the realization that the median loss due to fraud for not-for-profit organizations is as great as for public companies, and that consequently small, not-for-profit organizations like LSC grantees risk suffering disproportionately large losses if fraud goes undetected. We have received positive responses on the guidance and will continue aggressively investigating allegations of fraud as well as the effective expenditure of LSC funds.

Investigative Cases

Open at beginning of reporting period	6
Opened during reporting period	10
Closed during reporting period	8
Open at end of reporting period	8

Prosecutorial Activities

Referred for prosecution	1
Accepted for prosecution	1
Declined for prosecution	0
Arrests	1
Pending	1
Convictions	0

Investigative Activities

Inspector General subpoenas issued	4

LEGAL REVIEWS

Pursuant to the IG's statutory responsibilities, the OIG reviewed and, where appropriate, commented on statutory and regulatory provisions affecting LSC and/or the OIG as well as LSC interpretive guidance and its internal policies and procedures.

REGULATION: 45 CFR PART 1611, FINANCIAL ELIGIBILITY

In our last report, the OIG reported on its written comments to proposed revisions to LSC's regulation governing financial eligibility, 45 CFR Part 1611. During the current period, on April 1, 2005, the Operations and Regulations Committee held a meeting at which it considered the financial eligibility regulation. The OIG provided oral comments to the Committee, which while not agreeing with all of the OIG's comments, addressed some of them by changes to the regulatory text and/or the supplemental guidance that accompanied publication of the regulation.

Group representation:

The OIG commented that the regulation should provide eligibility criteria sufficient to ensure that groups qualify for LSC funded legal assistance, and should require grantees to retain adequate documentation of group eligibility. The regulatory language under consideration at the April meeting set as the standard for group financial eligibility the requirement that the group "provide[] information showing that it lacks, and has no practical means of obtaining funds to retain private counsel," and then required merely that grantees collect information that "reasonably demonstrates" that the group meets this criteria. The LSC Act, however, requires that eligibility be predicated on more than the general inability to afford an attorney. Thus, in the OIG's view, LSC must provide eligibility standards and guidelines for group representation more specific than a general inability to afford counsel. In addition, the OIG expressed concern that the lack of specific criteria in combination with the undefined notion of reasonableness with regard to required documentation of eligibility did not provide guidance to grantees sufficient to ensure that only financially eligible groups would be represented.

The Operations and Regulations Committee considered these concerns and directed that language be added to the regulation to require that grantees review information concerning a group's income and assets when making an eligibility determination. The Committee found that membership groups, that is groups composed primarily of individuals qualified for LSC funded assistance, could present a difficult situation because for such groups eligibility is predicated not on the group's income and assets but that of the individual members. The Committee decided not to require a comprehensive eligibility determination of each individual group member, finding this prohibitively burdensome, but ultimately approved language predicating eligibility on consideration of financial or other socioeconomic characteristics of group members or those served by the group.

The OIG expressed concern with the expansion of group representation to permit not only the representation of groups primarily composed of eligible clients, but the representation of groups that have as a principal activity the delivery of services to those who would be financially eligible for LSC funded services. The OIG found this problematic because in its view, neither the LSC Act itself nor its legislative history endorse the premise that LSC may permit representation of groups that are not composed of eligible clients. The Committee disagreed, but decided to include language in the supplemental guidance to accompany the regulation intended to make clear that it is not LSC's intent in expanding group representation to permit grantees to circumvent the LSC restrictions, including the restriction on participation in class action cases.

The Committee directed staff to publish the proposed regulation for comment and after considering public comment, recommended the Board's adoption of the regulation. The Board adopted the Committee's recommendation and the revised regulation become final on September 7, 2005.

ELIGIBILITY OF TRAFFICKING VICTIMS UNDER THE TRAFFICKING VICTIMS PROTECTION ACT (TVPA)

The OIG provided written comment to LSC management regarding LSC's draft program letter regarding the eligibility of trafficking victims under the Trafficking Victims Protection Act (TVPA). The program letter authorizes LSC grantees to provide assistance to persons who have not yet received certification under the TVPA. Under the program letter, grantees may provide assistance with achieving certification and may provide the full range of legal services to persons who have not yet received certification, even though certification is a prerequisite to receiving benefits such as LSC-funded legal services. As such, in the OIG's view, the program letter allows representation of ineligible aliens in violation of section 504(a)(11) of LSC's 1996 Appropriations Act. We so advised LSC management and additionally advised LSC management to consider seeking specific congressional authorization, especially in light of the pending reauthorization of the TVPA.

REVISIONS TO ABA STANDARDS FOR PROVIDERS OF CIVIL LEGAL ASSISTANCE TO THE POOR

The American Bar Association (ABA) has established standards that are intended to provide guidance to organizations that provide legal assistance to the poor by addressing issues that arise in the context of the competing demands for high quality legal work, efficiently produced within available resources. The OIG is particularly interested in the revisions being made by the ABA's Standing Committee on Legal Aid and Indigent Defendants (SCLAID) to the Standards for Providers of Civil Legal Assistance to the Poor. Because LSC has incorporated these standards into its competition process as one of the selection criteria, the OIG believes that we should comment on the revisions as part of the OIG's statutory responsibility to comment on existing and proposed regulations. The OIG has been in contact with representatives from SCLAID and advised them that the OIG intends to comment on the revisions, which are expected to be finalized at the ABA's mid-year meeting in early 2006.

MAPPING PROJECT

As I reported in greater detail in previous semiannual reports, the OIG has been evaluating the utility of mapping to support the management of legal services delivery to the LSC eligible population, as part of our mission to promote efficiency and effectiveness in the activities and operations of LSC and its grantees. The OIG is in the concluding phase of this evaluation and has begun to transfer all project assets to LSC management and will issue a summary report. The OIG will be recommending that LSC increase the availability of mapping to its grantees and further develop legal services mapping to support LSC functions.

This project identified, prototyped, and assessed the maps and census poverty information that are valuable to legal services decision-makers, in both urban and rural settings in Southern California, Georgia and Montana. The maps visualize the distribution and changes of the poverty populations over time. They compare the potential legal services client base to legal services delivered at various scales to give macro and micro-level views on access to legal services to low-income individuals from a geographic perspective. The evaluation's evidence supports that maps offer a visual model of the legal services environment that assists in planning, resource and performance management and program promotion.

The project was structured to allow for further development, replication and deployment by LSC and/or the LSC grantees. Highlights of the evaluation's second phase, which include interim results, resources developed and technical best practices are posted on the OIG Evaluation of Legal Service Mapping website at: http://www.oig.lsc.gov/mapping/mapping.htm.

The OIG commissioned an assessment of our project by James W. Meeker J.D., Ph.D., of the University of California, Irvine. Dr. Meeker recently completed the assessment in his paper, *Utilizing GIS to Study Legal Needs Issues: an Analysis of the LSC OIG Southern California Mapping Project*. Dr. Meeker introduced his paper as "an evaluation of an innovative effort by the Office of the Inspector General (OIG) of the Legal Services Corporation (LSC) to explore the utility of using Geographic Information Systems (GIS) ("mapping") to analyze the distribution of services for five legal service providers in Southern California.…" Dr. Meeker's paper points out that the application of GIS to analyze the delivery of legal services to the poor is a fairly new application; that many in the legal services community are unaware of both the strengths and weaknesses of this analytical approach; and that one of the major purposes of this project is to increase this awareness. The report, which can be found at the Evaluation's website, is another part of the process of the OIG concluding this work and transferring the project to LSC management.

AUDIT REPORTS ISSUED

for the Period Ending September 30, 2005

	Title	Date Issued
1.	Peer Review of EEOC's Office of Inspector General's Audit Program	April 12, 2005
2.	FY 2004 LSC Corporate Audit (Conducted by an independent public accounting firm)	April 20, 2005
3.	Landlord Build Out Allowance for LSC Headquarters Space	June 13, 2005
4.	LSC's Headquarters Office Space Needs	September 28, 2005

TABLE I
Audit Reports Issued with Questioned Costs for the Period Ending September 30, 2005

No reports that questioned costs were issued this reporting period.

	NUMBER OF 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
E. 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, 2005

	NUMBER OF 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	2	$5,640,400*
Subtotals (A + B)		
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	2	$5,640,400*
Reports for which no management decision had been made within six months of issuance	0	$0

***NOTES**

Audit of LSC's $2 Million Landlord Contribution. The audit found that LSC may have paid $203,240 for some leasehold improvements from LSC funds rather than charging the improvements against the $2 million landlord contribution. On September 28, 2005, LSC management provided the OIG with management actions taken and requested that the significant recommendations be closed. LSC management actions indicated that LSC was unaware of any payments made by LSC that should have been paid using the leasehold improvement funds. As of the end of the reporting period, the OIG was evaluating LSC management actions and will keep the significant recommendations open until the analysis is complete.

Audit of LSC's Office Space Needs. LSC management generally agreed to implement the recommendations and will provide the amount of savings, if any, it believes is appropriate when management actions are complete. The amount of funds put to better use was calculated by multiplying the number of years remaining on the LSC lease at the time the report was issued (7.67 years) times the potential overpayment per year ($748,000), minus the amount of income LSC will receive from a 5-year sublease ($300,000). This calculation resulted in an estimate of $5,437,160 of funds that potentially could be put to better use.

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	13
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	10-12
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	17-19
Section 5(a)(7)	Summary of each particularly significant report	None
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	18
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	19
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.

INSPECTOR GENERAL HOTLINE

To report suspected fraud, waste or abuse:

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1 202 295 1670

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You can request that your identity be protected.

LSC employees are protected from reprisals by the Corporation.

Office of Inspector General
Legal Services Corporation
3333 K Street, NW, 3rd Floor
Washington, DC 20007

LEGAL SERVICES CORPORATION

America's Partner For Equal Justice

REPORT TO THE CONGRESS

FROM THE BOARD OF DIRECTORS

FOR THE PERIOD

APRIL 1, 2005 – SEPTEMBER 30, 2005

INTRODUCTION

The Board is pleased to have the opportunity to address the Congress and share its perspective on the current state of federally-funded civil legal services for low-income Americans. In keeping with the Board's previous observations that the United States is far from reaching its goal of "justice for all," during the reporting period LSC completed its analysis of the "justice gap" in America, which evidenced a great disparity between the number of poor persons who need legal assistance and the number who receive such help. LSC's study of unmet civil legal needs, which employed three different methodologies to measure such needs, concluded that only fifty percent of eligible applicants who seek civil legal assistance from LSC grantees[*] receive such help as a result of the lack of resources. Additionally, the study suggested that the percentage of legal problems for which poor persons do not receive assistance may be greater than 80%, considering that many poor people are unaware of programs for free legal services and do not apply for such help. In October 2005, LSC published a report on its study of the unmet civil legal needs of the poor, entitled *Documenting the Justice Gap in America*.

In September 2005, LSC mobilized its resources to provide maximum support to its grantees affected by Hurricane Katrina, and to the indigent communities served by those grantees. In addition to convening regular conference calls with affected grantees and providing formal guidance on assistance to hurricane victims, LSC -- in partnership with the American Bar Association, the National Legal Aid and Defender Association, and Pro Bono Net -- launched the "Katrina Legal Aid Resource Center," a web-based clearinghouse for hurricane victims and their advocates. LSC continues to work with programs affected by the season's hurricanes to assist the client communities in the Gulf Coast region to rebuild their lives.

During the reporting period, LSC continued work on important initiatives to improve the quality and accessibility of services for low-income persons. LSC launched its Pilot Loan Repayment Assistance Program during the reporting period, which strives to enhance the ability of grantees to recruit and retain high-quality lawyers who have substantial law school debt. Similarly, LSC began its pilot leadership mentoring program during the reporting period, which seeks to develop a diverse and well-trained corps of future leaders in the legal services community. Other significant projects include continued efforts to improve services to eligible clients in rural communities; attempts to better define quality in the operation of legal services programs; and the continued use of technology to expand services to low-income persons. In addition to these special initiatives, LSC continued during the reporting period to monitor its grantees to ensure compliance with all Congressionally-mandated rules and restrictions.

The Legal Services Corporation

The Legal Services Corporation is a private, non-profit corporation established in the District of Columbia by the Legal Services Corporation Act of 1974, as amended ("the LSC Act"),[†] to provide financial support for legal assistance in civil proceedings to persons unable to

[*] "Grantees," "programs" and "recipients" are used interchangeably in this report to refer to recipients of LSC funding.

[†] 42 U.S.C. §§ 2996-2996l.

afford legal services. LSC is governed by an eleven-member, bi-partisan Board of Directors appointed by the President of the United States with the advice and consent of the Senate. The Board appoints LSC's President, who serves as LSC's chief executive officer, subject to general policies established by the Board.

The 1988 Amendments to the Inspector General Act of 1978 ("the 1978 Act") required LSC to establish an Office of Inspector General ("OIG") and extended specific provisions of the 1978 Act to LSC. Accordingly, such an office was established by and for LSC. The Inspector General is appointed by, reports to, and serves under the general supervision of, LSC's Board of Directors.

LSC provides funding to civil legal services programs serving indigent persons throughout the fifty states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, Micronesia and American Samoa. To carry out the purposes of the LSC Act, LSC received an appropriation of $330,803,705 for Fiscal Year ("FY") 2005. For FY 2006, LSC submitted a budget request for $363,809,000. Most of the requested increase would be used to provide additional funding to LSC's basic field programs and would bring LSC's appropriation in line with inflationary increases over the past three years. The increase would position LSC's 140 grantees to respond to the rising numbers of low-income Americans eligible for federally funded legal assistance. From 1981 -- the highwater mark of LSC appropriations after adjusting to inflation -- to 2004, the poverty population eligible for legal services increased by 13.5% to 49,666,000. However, LSC's appropriations have not kept pace with this increase in the eligible client population.

During the reporting period, the House of Representatives voted for an FY 2006 appropriation equal to the FY 2005 level, while the Senate voted to increase LSC's funding to $358.5 million, nearly the amount requested by the Board. After the reporting period ended, the House-Senate conference committee decided to fund LSC at roughly the House approved and FY 2005 level.

LSC INITIATIVES

During this reporting period, LSC continued its efforts to improve the efficiency of its competitive grant award system and the effectiveness of the delivery of legal assistance to eligible clients. LSC continued to demonstrate its ability to ensure both compliance with program rules and regulations, and the maintenance of high quality legal assistance to eligible clients in conformity with Congressional mandates.

Competition

LSC received and evaluated thirty-six grant applications for service areas in twenty-two states, American Samoa, the District of Columbia, Guam, Micronesia, and the Virgin Islands for calendar year 2006 grants, in response to a comprehensive and detailed Request for Proposals ("RFP").

All grant applications are evaluated based on the requirements of LSC's RFP, the LSC's Performance Criteria, the American Bar Association's Standards for the Providers of Civil Legal Services to the Poor, and LSC's regulations. LSC funding decisions for calendar year 2006 will be announced in the month of December.

In addition to staff evaluation of the grant applications, LSC provides all successful grant applicants with "feedback letters," which assess the strengths and weaknesses of applicants' proposed delivery strategies based on their grant applications. The feedback letters are intended to improve program performance and the quality of future grant applications.

LSC's competitive grants process remains responsive to the Congressional requirement to award grants through a system of competition, and to assure the most efficient and effective delivery of services to eligible, low-income people. An overview of the competitive grants process, the RFP, application instructions and resource materials are available from the LSC bulletin board at www.ain.lsc.gov.

Program Visits to Assess Quality and Compliance

During the reporting period, LSC continued visiting programs to assess quality; ensure compliance with applicable statutes and regulations; provide technical assistance; review progress in achieving a comprehensive delivery system in reconfigured service areas; address problems; evaluate innovative procedures which may serve as models for other programs; and communicate LSC's expectations directly to grantees. These visits expand LSC's understanding of programs' activities otherwise gleaned from competition applications, grant activity reports, and anecdotal information. They also enable LSC to provide technical assistance to help programs enhance the quality of services delivered to clients and promote efficiency and effectiveness in delivery systems.

LSC conscientiously follows up on program visits that it has made in the past. Typically, LSC staff has periodic communications with programs to check on progress with planned changes. Additionally, after program visits, LSC often provides programs with materials describing "best practices" and innovative strategies to assist in improving the effectiveness of their delivery systems.

From April 1, 2005, through September 30, 2005, staff from LSC's Office of Program Performance ("OPP") visited seven programs. These visits are in addition to the four visits conducted jointly with LSC's Office of Compliance and Enforcement that are discussed below.

When LSC examines program quality, it reviews program operations in areas that include the establishment of priorities, intake systems, legal work management and supervision, governance, Private Attorney Involvement ("PAI"), resource development, and strategic planning, in order to evaluate comprehensively the efficiency and effectiveness of programs. Post-reconfiguration on-site reviews, which typically occur two years following the reconfiguration of a service area, involve an assessment of the grantee's progress in creating an efficient and effective integrated program that strives to provide high quality legal assistance. Following a program visit, it is customary for LSC staff to prepare and send a report to the program detailing staff's findings and recommendations.

From April 1, 2005, through September 30, 2005, LSC's Office of Compliance and Enforcement ("OCE") made visits to five programs for the purpose of assessing general compliance with all LSC rules and regulations, and to assess Case Service Reporting ("CSR") and Case Management Systems ("CMS") in particular. After making CSR/CSM visits to programs, OCE sends reports of its findings to the programs. One such report was sent during the reporting period, and four others are being completed.

During the reporting period, OCE also visited four programs to follow-up on previous CSR/CMS visits. LSC is preparing reports on each of these follow-up visits to send to the programs.

OCE provided accountability training on CSR and LSC regulations to seven programs. During the reporting period, OCE provided one training session on compliance with CSR and LSC regulations to a new Executive Director.

OCE conducted a technical assistance review and accountability training for two programs during the reporting period. LSC sent a report of its findings to one program, and it will soon send a follow-up report to the other program.

In late 2004, LSC launched pilot program joint visits to coordinate more effectively the work of OPP and OCE and to provide a more comprehensive review of the visited programs. LSC staff from OPP and OCE developed a new visit protocol that is an on-site examination of program quality and compliance, case management reporting, and case management system issues. The purposes of the new visit protocol are 1) to minimize the number of visits to LSC grantees through a more efficient process; 2) to bring to bear the perspectives and experiences of both offices in the performance of LSC's core functions in evaluating compliance and quality; and 3) to identify and incorporate new areas of inquiry that represent indicia of quality in legal services delivery. During the reporting period, OPP and OCE made four joint visits and the pilot project continues to be evaluated.

Quality Initiative

The Legal Services Corporation Act requires LSC to ensure that the programs it funds are of the highest quality and meet professional standards. In seeking to ensure quality among its grantees, LSC must determine the appropriate indicators of quality, how to measure these indicators of quality, and the role of a national funder in ensuring that its grantees provide -- and clients receive -- quality legal services. LSC is currently working on several projects designed to identify, further define and measure quality in these contexts.

An initial component of LSC's Quality Initiative is the revision of the *LSC Performance Criteria*, which were originally written in 1993. This revision is expected to be completed by the end of the year. The LSC Performance Criteria ("the Criteria") provide a framework upon which LSC grantees model their services. LSC uses the Criteria in every aspect of its quality review work, including the application information it seeks in its Request for Proposals; the guidelines it uses to evaluate grant applications; the standards it uses to make funding decisions; and the criteria it uses to evaluate programs through on-site visits.

LSC's Quality Initiative also involves work with a task force of the ABA's Standing Committee on Legal Aid and Indigent Defenders that is updating and revising the *ABA Standards for Providers of Civil Legal Services to the Poor*.

During 2004, LSC convened the first of several "conversations" with legal services community leaders to facilitate the development of the quality agenda. The conversation provided useful ideas on the role that LSC should play in enhancing program quality and performance. During this reporting period, an additional conversation on quality was held in New York City. Legal services program leaders from the Mid-Atlantic region attended the meeting. A conversation with legal services community leaders from the southern states had to be postponed due to Hurricane Katrina. It will be rescheduled for a later date.

Documenting the Justice Gap

LSC's study on the unmet civil legal needs of low income Americans, introduced in the last report to Congress, was completed during this period and was released to the public on October 17, 2005. The study used three different methodologies to examine this issue. First, LSC asked its grantees over a two-month period, from March 14, 2005, to May 13, 2005, to document the potential clients that came to their offices that the programs could not serve due to lack of resources. Second, LSC carefully analyzed the nine studies undertaken over the last five years in individual states about the civil legal problems faced by their low-income residents, examining the studies for nationally applicable conclusions, as well as comparing the results to the 1994 American Bar Association national study on the subject. Finally, LSC totaled the number of legal aid lawyers – those in both LSC and non-LSC funded programs – and compared that figure to the total number of attorneys providing civil legal assistance to the general population in this country.

All three methodologies demonstrated that there was a significant shortage of civil legal assistance available to low-income Americans. The LSC "Unable to Serve" study, the first methodology discussed above and the first comprehensive national statistical study ever undertaken, established that for every client who receives service, one applicant was turned away. This indicates that 50 percent of the potential clients requesting assistance from LSC grantees were turned away for lack of resources on the part of the programs. The study underestimated the unmet need, because it is known that many people do not contact programs either because they do not know they have legal problems, or they do not know that LSC grantees can help them.

The two other methodologies suggested higher unmet needs. The nine recent state studies demonstrated that less than 20 percent of the legal needs of low-income Americans were being met. Eight of the nine studies found unmet legal needs to be greater than the 80 percent figure determined by the ABA in its 1994 national survey. The final methodology compared the ratio of low income persons to the number of legal aid attorneys, with the ratio of all persons to all civil attorneys available to assist them. The ratio of attorneys delivering civil legal assistance to the general population is thirteen times more.

In summary, the justice gap -- i.e., the disparity between the civil legal needs of low-income people and the legal help they receive -- is significant and large. LSC-funded programs were only able to assist fifty percent of the people with eligible cases who applied for assistance. The legal needs surveys indicate that an even larger percentage of low income persons (i.e., 80%) do not obtain assistance, either because it is not available to them, they do not know that they can ask for it, or they do not know how to ask for it.

Technology Efforts

A major component of LSC's technology efforts is the administration of the congressionally-funded Technology Initiative Grants program ("TIG"), and the awarding of grants under this program. The TIG program awards grants for the use of technology to help grantees provide assistance to low income persons who would otherwise not receive legal assistance. This is accomplished by means of technologically enhanced *pro se* and community legal education efforts and by enhancing state justice systems' technology infrastructures to support centralized telephone intake and delivery systems.

During the reporting period, LSC received and reviewed 52 letters of intent and, subsequently, 38 applications. In 2005, TIG will award 28 grants totaling $1,374,500.

The following are updates on TIG projects described in previous reports:

- The I-CAN!™ Earned Income Tax Credit ("EITC") project is preparing for another tax season. This project, which allows low-income tax payers to file their own tax returns and receive earned income tax credit payments, is available nationwide for federal income tax returns. Last year this project returned over $3,200,000 in earned income tax credit to low-wage workers in 44 states. The I-CAN!™ project began as a series of kiosks that enabled *pro se* applicants to file a wide range of answers and complaints with courts in Orange County, California. The project has since expanded to courts in several other states. TIG-funded I-CAN!™ projects in Colorado, Massachusetts, and New York are being developed. The kiosks in Colorado have been installed, and the New York project is forming a promising partnership with the New York City Civil Courts.

- The National HotDocs® Project -- a project enabling the generation of automated forms over the internet -- is gaining momentum. When the HotDocs® software is installed on a website or kiosk, the software guides applicants through a series of questions that enables applicants to file their own court documents. With the assistance of a donation from LexisNexis®, TIG previously funded a national server to host automated documents using the HotDocs® Online Server. The server currently hosts online forms created by 25 states, and it has enabled the completion of 12,728 documents.
- The TIG program continues to work with LSC's national partners to update and refine the National Index used to classify materials on the web. The use of this index enables the sharing of information among grantees in different states.

In addition to implementing the 2005 competition process and overseeing existing grants, LSC TIG staff has continued to work on evaluation of grants and on training designed to spread the effective use of the technologies developed.

Evaluation systems for the client, advocate and *pro bono* websites are now operational. They include evaluation instruments and online reporting systems. In developing these systems, LSC built on the work accomplished through the TIG-funded Technology Evaluation Project and incorporated significant input from TIG grantees and other stakeholders. LSC is adding additional components to these systems to obtain more comprehensive data about websites' operations and impacts. Databases are in place to help compile and analyze evaluation results and to produce reports summarizing and profiling key findings. Key elements of the website evaluation systems can be reviewed at: http://www.lri.lsc.gov/sitepages/tech/tech_eval_tig.htm.

LSC continues to be pleased with the TIG program's progress in creating infrastructure that permits income-eligible clients to receive advice and brief services through centralized intake systems and legal education materials on websites. TIG grants also have the potential to enable LSC-funded programs to enhance productivity through the use of technologically sophisticated infrastructures. By carefully monitoring the TIG grants and overseeing project evaluations, LSC is assessing the extent to which technological approaches can increase the amount and quality of services to eligible clients.

Pilot Loan Repayment Assistance Program

The burden of law school debt, which now averages $80,000 per new law school graduate, prevents many recent graduates from considering a career in legal services, where the average starting salary nationally is $37,000 a year.

LSC's FY 2005 appropriation contained a provision "to allow LSC to spend up to $1,000,000 from a carryover fund balance for a law school student loan repayment pilot program in fiscal year 2005." LSC will provide loans of up to $5,000 a year over a three- year period to attorneys working in selected programs who have an annual law school debt repayment obligation of at least $2,400. These attorneys must have annual incomes of no more than $45,000 and a total net worth of no more than $35,000. LSC will be evaluating the pilot program to see what impact it has on recruitment and retention of attorneys.

LSC launched the pilot LRAP program during this reporting period with the solicitation of applications from grantees. Sixty-two grantees expressed an interest in participating in the LSC Pilot LRAP.

In October 2005, just beyond the reporting period, LSC announced its selection of fifteen grantees that have attorneys or are recruiting attorneys who meet the pilot program's eligibility criteria and who may apply for LSC Pilot LRAP assistance. LSC plans to provide LRAP assistance to at least sixty-seven attorneys working with these selected programs.

Leadership Mentoring Project

Since June 2004, in response to direction from the Board of Directors, LSC has worked diligently to address the growing need to develop a future corps of diverse leaders in the legal services community. Toward this end, LSC developed the *Leadership Mentoring Pilot Program*, an 18-month program to create effective mentoring relationships and leadership training. An objective of this program is to identify the elements of a mentoring program that are most likely to produce a diverse corps of future leaders for LSC programs. LSC officially launched the Pilot Program in August 2005 by making applications available to potential mentors and protégés.

The Pilot Program will help LSC gather information needed to develop a model leadership mentoring program that may be used by grantees. It will also help to identify core competencies required to be an effective leader in a legal services program. Finally, it will identify challenges to developing diverse leadership and seek strategies to overcome those challenges. LSC will conduct ongoing evaluations of the Pilot Program.

Centralized Telephone Brief Advice and Referral Intake Systems

During the reporting period, LSC continued efforts to promote the use of coordinated telephone intake, advice and referral systems used by its grantees. These delivery systems maximize client access and improve the quality of legal services by increasing efficiencies in program operations and management, simplifying application procedures, expediting responses to applicants, and allowing experienced staff to concentrate on legal problems requiring extensive representation.

LSC Resource Initiative

LSC continues to promote high quality legal assistance by sharing best practices in the legal services community and encouraging replication when appropriate. To further this goal, the Office of Program Performance ("OPP") oversees the LSC Resource Initiative ("LRI"), a project that has successfully gathered information about innovative legal services management approaches and delivery techniques and systems since its inception in June 2001. The accompanying website, the LSC Resource Library, has been online since October 2002, and can be viewed at http://www.lri.lsc.gov.

Noteworthy practices of many LSC-funded recipients are featured on the website. Some of the topics featured on the website include technology, diversity, intake, management practices, and loan repayment assistance. To avoid duplication, the website links to several other websites and existing sources of information. The website also includes announcements and training opportunities available to the staff of legal services programs.

During the reporting period, the provision of disaster relief materials to grantees was a high priority for LSC. As a result of recent hurricanes, many programs used and forwarded disaster relief information that is currently featured on the LRI website.

Rural Initiative

LSC has maintained its role as a national leader in the analysis of rural delivery issues and in the promotion of rural legal services. With the support of the National Legal Aid and Defender Association ("NLADA"), in May of 2005, LSC sponsored a half-day symposium on rural service delivery at the Equal Justice Conference in Austin, Texas. It was attended by 75-80 rural providers and interested stakeholders such as state court judges and Interest on Lawyers Trust Account ("IOLTA") providers. The conference explored effective strategies for the delivery of services in rural areas. Panels focused on: 1) recruitment and retention of high quality, diverse advocates; 2) building programs' substantive capacities in areas such as economic development, employment law, consumer issues, affordable housing, and complex litigation; 3) resource development; and 4) building community partnerships.

Response to Hurricane Katrina

On August 29, 2005, Katrina hit the Central Gulf Coast, near New Orleans, Louisiana, as a Category 4 hurricane. Most of New Orleans subsequently flooded when the levee system was breached. This and other major damage to the costal regions of Louisiana, Mississippi and Alabama made Katrina the most destructive and costliest national disaster in the history of the United States. Over 1,300 people died, over a million people were displaced, and damage is estimated to cost between $70 and $150 billion.

Once LSC became aware of the devastation caused by Hurricane Katrina, it closely monitored the extent of the damage to its grantees and to the clients served by those programs.

Louisiana, Mississippi and Alabama already had significant poverty populations,[‡] and the hurricane's devastation significantly increased the number of persons in need of legal assistance. On September 1, 2005, LSC conducted a conference call with the Executive Directors of its grantees in the Gulf Coast region affected by Hurricane Katrina, as well as several Executive Directors from surrounding states and other national partners. LSC began working closely with the affected programs in the states of Alabama, Florida, Louisiana, and Mississippi to provide all necessary assistance to ensure the continued provision of legal services to client communities. Many members of these communities were displaced by the hurricane and are relocating to the neighboring states of Georgia, Tennessee and Texas. LSC also worked with the private bar, the federal government, the courts, Interest on Lawyers Trust Account ("IOLTA") providers, other providers of services, the ABA and NLADA to coordinate the assistance needed to provide services in this crisis.

On September 9, 2005, LSC issued guidance to its programs on responding to the increased need for services following Hurricane Katrina. This guidance reminded programs that LSC regulations and reporting requirements allow them some flexibility to represent clients in emergency situations. The flexibility allowed under LSC regulations in emergency situations will allow programs to provide legal assistance to the greatest number of evacuees and other affected persons as is possible.

During the week of September 19, 2005, LSC's President and Vice President for Programs and Compliance visited LSC programs in Alabama, Mississippi and Louisiana, which were directly affected by Hurricane Katrina. This visit allowed LSC to witness firsthand the needs of the programs and the issues they are facing, and to offer LSC's support.

On September 26, 2005, LSC, in partnership with the ABA, NLADA and Pro Bono Net, launched "Katrina Legal Aid Resource Center," a web-based clearinghouse of legal aid, *pro bono* and public defender information for persons affected by the hurricane and the lawyers and advocates assisting them. The website is located at www.katrinalegalaid.org.

LSC and its partners continue working tirelessly to ensure that those impacted by Hurricanes Katrina, Rita and Wilma, and the lawyers and advocates supporting them, have the resources they need to rebuild their lives. LSC continues to participate in weekly conference calls with programs affected by the hurricanes and with other organizations providing support services to the affected programs. These calls are intended to facilitate the exchange of helpful information and improve support services.

Rulemaking Activities

During this reporting period, LSC concluded the rulemaking on its regulation on financial eligibility, appearing at 45 C.F.R. Part 1611. LSC published a Notice of Proposed Rulemaking on May 24, 2005. Following a 30-day public comment period, the LSC Operations and Regulations Committee ("the Committee") of the Board of Directors considered a Draft Final rule prepared by staff, addressing the comments received in response to the proposed rule. Upon the recommendation of the Committee, the Board of Directors adopted a Final rule, which was

[‡] Louisiana's poverty rate was 22%, Mississippi's was 23% and Alabama's was 20%.

published in the Federal Register on August 8, 2005. The new rule became effective on September 7, 2005.

During the reporting period LSC also undertook consideration of a petition for rulemaking received from a citizen requesting that LSC initiate a rulemaking to consider changes to its regulation on limitations on class action lawsuits. LSC conducted a factual inquiry into the involvement of LSC grantees with non-adversarial post-order activities in class action lawsuits in which the grantee had been counsel of record prior to the implementation of the prohibition on participation in class actions. The Board was briefed on the results of the inquiry and took formal action denying the petition.

Additional Office of Compliance and Enforcement Activities

In addition to program visits and accountability training to ensure compliance, LSC's Office of Compliance and Enforcement ("OCE") is charged with a number of functions which ensure that recipients are in compliance with the LSC Act and Regulations. These obligations currently include complaint investigations, prior approvals of some expenditures of LSC funds by grantees and activities by grantees, on-site visits to examine compliance with regulations, and the provision of technical assistance and training to recipients.

A-50 Follow-Up

During the reporting period, no findings were referred for A-50 follow-up.

Prior Approval Under 45 CFR Part 1630

During the reporting period, OCE approved eight requests totaling approximately $384,270 to lease or purchase personal/non-expendable property, two requests totaling $875,000 to renovate real property and one request totaling $2,275,000 to purchase real property pursuant to 45 CFR Part 1630.

Private Attorney Involvement Under 45 CFR Part 1614

LSC's Private Attorney Involvement ("PAI") regulation, 45 CFR Part 1614, requires that all recipients devote an amount equal to at least 12.5% of their respective Basic Field Grants to involve private attorneys in the delivery of legal assistance to eligible clients. A provision of this regulation, 45 CFR § 1614.6, allows recipients to request either a partial or complete waiver of this requirement in circumstances in which they have been unable to meet the obligation during a given year. If a recipient's circumstances warrant a waiver, OCE will either waive the requirement and adjust the requirement for that year by the amount of the shortfall, or increase the next year's requirement by the amount of the shortfall.

During the reporting period, OCE granted five partial waivers, one complete waiver, and one administrative waiver.

Follow-up on PAI compliance is conducted and, if necessary, the PAI program is reviewed as part of the Case Service Reporting/Case Management Systems review.

Subgrants Under 45 CFR Part 1627

Pursuant to 45 CFR § 1627.1, a recipient may subgrant a portion of its LSC funding to another entity to conduct certain activities related to the recipient's programmatic activities. Such activities include those that would otherwise be undertaken by the recipient itself, such as representation of eligible clients, or activities which provide direct support to a recipient's legal assistance activities, such as a PAI component.

OCE approved four recipient subgrants for a total amount of $57,000 during the noted time period. Additionally, three subgrant modifications were requested under 45 CFR § 1627.3(b)(3), totaling $16,000.

Fund Balances Under 45 CFR Part 1628

LSC recipients whose annual audits report fund balances in excess of ten percent of their total LSC annualized support, are required to request a waiver from LSC pursuant to 45 CFR § 1628.4, in order to carry over the excess balance to the following year. Recipients may request a waiver to retain fund balances in excess of 25% of LSC support only for extraordinary and compelling reasons. In the absence of a waiver, LSC is required to recover the excess fund balance pursuant to 45 CFR § 1628.3.

During the reporting period, OCE granted five fund balance waiver requests totaling $691,291. When OCE grants a fund balance waiver, it informs the relevant program that the excess fund balance should be reported separately in the recipient's next audit, either as a separate fund or by a supplemental schedule in the audit report. The separate reporting is by line item expense to show exactly how the excess fund balance was spent. OCE ensures that the excess fund balance is reported appropriately through its review of the recipient's annual audit.

Complaint Investigations

OCE is responsible for the review, investigation and disposition of complaints filed by members of the public (e.g., applicants, clients, local recipients, staff and Board members, opposing counsel/parties, and taxpayers) related to the activities of LSC recipients.

During the reporting period, 35 such complaints were closed. The majority of the complaints closed during the reporting period involved denial of services i.e., complaints from applicants who were financially ineligible, outside of program priorities, or requesting assistance with fee-generating cases or other cases prohibited by Congressional restrictions.

Audit Reports

The fiscal year cycle adhered to by LSC grantees differs from program to program. While the majority of grantees operate on the fiscal year cycle that ends on December 31st of each year, others adhere to cycles that end on January 31st, March 31st, May 31st, June 30th, or September 30th respectively. LSC grantees must submit their audit reports (including audited financial statements) to LSC's OIG within 120 days of the end of their respective fiscal years.

The OIG ensures that all grantees submit their audit reports to LSC in a timely fashion. OCE then reviews the audited financial statements for compliance with the Accounting Guide for LSC Recipients (issued in August 1997) and LSC's finance-related regulations, 45 CFR Parts 1610, 1614, 1627, 1628, 1630, 1631, and 1642.

After the OIG reviews and processes grantees' audit reports in its audit tracking system ("AIMS"), a copy of each grantee's audit report is sent to OCE. During the reporting period, OCE reviewed seventy-two audit reports forwarded to it by the OIG.

Disaster Relief

LSC, on occasion, obtains special funding to meet the emergency needs of programs in federally-declared disaster areas. In accordance with the instructions in Federal Register Volume 69, No. 61, March 2004, LSC grant recipients who have experienced needs due to a disaster may apply for disaster relief funding.

During the noted period, LSC distributed a total of $100,450 in disaster relief funds to two LSC recipients affected by Hurricane Katrina. Three additional requests for disaster relief grants have been received and are pending review.

Appendix
TABLE 1

Management Report on
Office of Inspector General Audit Reports of Grantees
Issued With Questioned Costs
For the Six Month Period
Ending September 30, 2005

	Number of Reports	Disallowed Costs
A. Audit Reports for which final action had not been taken by the commencement of the reporting period.	0	$0
B. Audit Reports on which management decisions were made during the reporting period.	0	$0
Subtotals (A + B)	0	$0
MINUS:		
C. Audit Reports for which final action was taken during the reporting period:	0	$0
(i) Dollar value of disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise.	0	$0
(ii) Dollar value of disallowed costs that were written by management.	0	$0
D. Audit Reports for which no final action has been taken by the end of the reporting period.	0	$0
Audit Reports for which no final action had been taken within six months of issuance	0	$0

TABLE 2

Management Report on Audit Reports Issued During The Six Month Period Ending September 30, 2005, With Recommendations That Funds Be Put to Better Use By Management Agreed to in a Management Decision

	Number of Reports	Dollar Value
A. Audit Reports for which final action had not been taken by the commencement of the reporting period.	0	$0
B. Audit Reports on which management decisions were made during the reporting period.	2*	$203,240
Subtotals (A + B)	2	$203,240
MINUS:		
C. Audit Reports for which final action was taken during the reporting period:	1	$203,240
(i) Dollar value of recommendations that were actually completed.	0	$29,367
(ii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed.	0	$173,873
D. Audit Reports for which no final action has been taken by the end of the reporting period.	1	$0
Audit Reports for which no final action had been taken within six months of issuance.	0	$0

* On Table II of its SAR, the OIG references an audit finding that LSC "may have paid" $203,240 for leasehold improvements from LSC funds rather than charging the improvements against an up to $2 million landlord contribution. Of the $203,240 identified by the OIG, $29,367 were funds paid for by the landlord and $5,616 was for late wiring plan changes insisted upon by LSC. The remaining $168,257 was actually paid by the OIG for its own office suite in order to control the build out of its space and to obtain amenities not available to the rest of LSC.

While the OIG notes in its SAR its belief that LSC may be using an excess amount of space, it made no finding that LSC actually has excess space. On page 4 of its report, the OIG states that "until a space study has been completed to determine actual space needs, the actual amount of overpayment, if any, cannot be determined." Nonetheless, the OIG listed $5,437,160 on Table II of its SAR as "Funds to Be Put to Better Use" in connection with the allegation of excess space use. LSC disagrees with this designation and is undertaking a study to assess space needs.