

April 30, 1996

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

This Semiannual Report (SAR) on the activities of the Office of Inspector General (OIG) of the Legal Services Corporation (LSC) covers the six-month period from October 1, 1995 through March 31, 1996. Section 5 of the Inspector General Act of 1978 requires that the Board of Directors, as the designated Federal entity head, transmit this report to the appropriate committees of Congress within 30 days, together with its report commenting on the contents of the SAR.

The work of the OIG staff is aimed at ensuring the proper stewardship of Federal funds, and assisting the Corporation in achieving the most effective delivery of legal aid to the poor. The continued support of the Board of Directors is essential to achieve the highest degree of institutional integrity and efficiency.

Edouard Quatrevaux  
Inspector General

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# INTRODUCTION

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## **Corporate Structure**

The Board of Directors of 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 is appointed by and 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 more than 300 grants to entities that in turn provide legal assistance to indigent persons throughout the United States, Puerto Rico, the U.S. Virgin Islands, and Micronesia.

## **Office of Inspector General**

The Office of Inspector General (OIG) was established as an independent office pursuant to the 1988 amendments to the IG Act. Its statutory missions are to prevent and detect fraud and abuse, and to promote efficiency and effectiveness in the activities administered or funded by LSC. The OIG accomplishes its missions by conducting audits, investigations, inspections and program assessments, and by making recommendations for change to legislation and regulations.

## **Certification of Independence**

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

## **Inspector General's Comment**

This was an unusual period in that uncertainty regarding the fiscal year 1996 (FY96) appropriation resulted in the curtailment of Quality Assurance Reviews and other audit work. In addition, much staff time was devoted to preparing for contingencies contained in different versions of draft legislation.

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# **PROGRAM INTEGRITY**

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## **AUDIT AND INSPECTION ACTIVITIES**

### **Status of Findings and Recommendations**

Three recommendations remain open from prior periods, all relating to the Contract Service and Related Expense Payments Inspection Report issued in July 1995.

### **Contract Service and Related Expense Payments Follow-up Inspection**

The OIG conducted a follow-up review to assess corrective action taken by management to implement the recommendations that were reported in the July 1995 report. The follow-up review determined that LSC management had fully implemented two of the five open recommendations, and was in the process of addressing the remaining three recommendations. These recommendations were that management: revise its policies relating to employee benefits to reflect current withholding and reporting requirements under the Internal Revenue Code; determine the amount of unreported compensation for its employees and contractors, and make appropriate payments to the Internal Revenue Service; and establish a policy regarding the personal use of frequent flyer miles earned through official travel.

### **Corporate Financial Statement Audit**

The annual audit of the corporate accounts and records has been completed and the draft audit report has been sent to management for comment. The final audit report will be issued early in the next reporting period.

### **Inspection of the Usage of Government-Sponsored American Express Cards**

During the period, the OIG initiated an inspection to determine if and to what extent credit cards obtained through the government program have been used for purposes unrelated to official travel. The inspection will examine internal controls over card usage, and it will cover the period October 1994 through December 1995.

### **Quality Assurance Reviews (QARs)**

The OIG performed six QARs during this period relating to grantee audits conducted by the same firm. In 1995, the OIG examined three grantee audit reports prepared by the audit firm and noted significant deficiencies. In March 1996, the OIG returned to the audit firm to review

subsequent audit reports of the same grantees, and the current audit reports of three other grantees to determine whether the quality of the audits had improved. The final QAR reports will be issued during the next reporting period.

The State of Indiana Office of Attorney General declined to take any action against one firm which the OIG had referred as a result of a 1994 QAR. This outcome is consistent with previous OIG experience in seeking disciplinary action for inferior audit work.

### **Audit Guide for Recipients and Auditors**

We issued an Audit Guide to replace a decade old version that was inconsistent with the Inspector General Act and applicable audit standards. For the first time, LSC grantees will be required to have their financial statements audited under the provisions of Government Auditing Standards. The Compliance Supplement to the Audit Guide contained instructions to independent auditors for testing compliance with *financially-related* provisions of the LSC Act and regulations.

The OIG also prepared similar guidelines which would incorporate compliance requirements that had been checked previously through on-site monitoring visits by LSC program management. These guidelines would implement the FY96 Appropriations Conference bill, which requires that compliance monitoring be performed by independent auditors under OIG oversight, and would cover existing practice restrictions and prohibited activities. Finally, we are preparing additional guidelines to cover practice restrictions and prohibitions introduced in the above legislation, and which would take effect with audits conducted after passage into law.

### **Financial Statement Audit Report Desk Reviews**

This is the first full reporting period during which the OIG was responsible for conducting desk reviews of the grantee financial audit reports. The objectives of these reviews are: to ensure that the reports have been prepared in accordance with applicable standards and the Audit Guide; to identify questioned costs and control deficiencies; to identify indicators of fraud and abuse; and to identify instances of non-compliance with the LSC Act and regulations.

During this period, the OIG completed 29 desk reviews of grantee audits which had been performed under the previous audit guidance. Desk reviews of the first audits performed under the new Audit Guide and Compliance Supplement will be conducted in the next period.

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**STATISTICAL SUMMARY OF AUDIT ACTIVITY  
FOR THE PERIOD ENDING MARCH 31, 1996**

**AUDIT REPORTS AND OTHER AUDIT-RELATED PROJECTS**

Open at beginning of reporting period	10
Opened during reporting period	7
Closed during reporting period	<2>
Open at the end of the reporting period	15

**RECOMMENDATIONS**

Pending beginning of reporting period	9
Reported during reporting period	0
Closed during reporting period	6
Recommendations pending as of March 31, 1996	3

**QUALITY ASSURANCE REVIEWS (QARs)**

QARs Performed	6
Audits Acceptable (met standards)	0
Audits Referred for Disciplinary Action (substandard)	0
Reports Pending	<u>6</u>
QAR activity for the reporting period	6

## **INVESTIGATIVE ACTIVITIES**

During this period, 33 cases were opened and 25 were closed. The majority of the cases resulted from information on losses provided by grantees in accordance with grant assurances. The remaining cases were opened as a result of information obtained from other sources, including referrals from other LSC offices and calls or letters to the OIG Hotline. The Hotline was contacted 31 times and resulted in four cases.

Two cases were referred for prosecution in this period. One of the referred cases was declined for prosecution by the United States Attorney's Office. Three other cases remain under consideration by prosecutors.

An OIG investigation into the alleged theft of approximately \$25,000 by a former Executive Director of a grantee, which had been declined previously for prosecution, was referred to the State Bar Association for possible ethical violations.

An OIG investigation into the embezzlement of approximately \$30,000 of program funds by the former controller of a grantee in California resulted in a referral for prosecution to the United States Attorney's Office.

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**STATISTICAL SUMMARY OF INVESTIGATIVE ACTIVITY FOR THE  
PERIOD ENDING MARCH 31, 1996**

**INVESTIGATIVE CASELOAD**

Investigations Open as October 1, 1995	21
Investigations Opened this reporting period	33
Investigations Closed this reporting period	<25>
Total Investigations in progress of March 31, 1996	29

**CATEGORIES OF INVESTIGATIONS OPENED**

Internal (Relating to LSC)	5
External (Relating to LSC Grantee)	28

**RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION**

Reported during this reporting period	0
Pending from previous period	0
Closed during this period	0

**PROSECUTIVE ACTIVITIES**

Referred for prosecution this reporting period	2
Prosecution Declined	1
Pending Action	3
Convictions	0



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# LEGISLATIVE AND REGULATORY REVIEW

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## **Legislative Review**

In November 1995, the OIG provided written comments to the House of Representatives on the House version of H.R. 2076, the LSC appropriation bill for FY 1996. In these comments, the OIG suggested that Congress add a new section on access to the bill in order to clarify the law in this area and ensure that LSC, its OIG and its grantees' outside auditors have access to the grantee information they need in order to perform their respective jobs. The suggestion was accepted in the Conference version of H.R.2076, which was later vetoed by the President. The suggested access provision was retained in both the Senate and House-passed versions of LSC's FY96 post-veto appropriation bill, H.R. 3019.

In December 1995, the OIG provided written comments on the Conference Committee version of H.R.2076 to the House and the Senate. Among the OIG suggestions were that Congress consider shifting funds to LSC's Management and Administration line from the amount provided in the bill to the Office of Inspector General, and that Congress delete from the bill the words which would create an exception to the protection from disclosure enjoyed by all attorney-client privileged materials under the LSC Act. The latter suggestion was adopted in the versions of H.R. 3019 passed by both the House and the Senate.

## **Regulatory Review**

LSC continued to develop new regulations intended to institute changes favored by both Houses of Congress. As in the past, the OIG participated in this process through written comments on drafts provided. In addition, toward the end of the period, management provided the OIG with a draft of a new regulation on LSC Personnel and Administrative Policies. Shortly after the close of the reporting period, the draft was withdrawn following the OIG's written comments. The OIG will continue to provide assistance to the Board in the development of a stable and consistent personnel policy.

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# PROGRAM ASSESSMENT

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## **Review of Technology**

During this period, the OIG continued to examine the potential for using information technology to increase the capacity of the legal services delivery system. A final report will be issued in the next reporting period.

## **Information Systems Development**

The OIG has completed an information system needs analysis and has begun to create an automated information system to support OIG functions: investigations, audit, legal reviews, program assessments, and OIG resource management. The system's design will provide greater access to information regarding these functions to a variety of potential users, including LSC management and the Board of Directors.

The Audit Information System (AIMS), the first module of the information system, is scheduled to become operational in the summer of 1996. AIMS will track and update data resulting from OIG reviews of LSC grantees' audited financial statements.

**TABLE I**

**Audit Reports Issued with Questioned Costs  
for the Period Ending March 31, 1996**

		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
<b>LESS:</b>				
C.	For which a management decision was made during the reporting period:	0	\$0	\$0
	(i) dollar value of recommendations that were agreed to by management	0	\$0	\$0
	(ii) dollar value of recommendations that were not agreed to by management	0	\$0	\$0
D.	For which no management decision had been made by the end of the reporting period	0	\$0	\$0
	Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

**TABLE II**

**Audit Reports Issued with Funds to be Put to Better Use  
for the Period Ending March 31, 1996**

	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
<b>LESS:</b>		
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

<b>IG Act*** Reference</b>	<b>REPORTING REQUIREMENT</b>	<b>PAGE</b>
Section 4(a)(2)	Review of legislation and regulations	
Section 5(a)(1)	Significant problems, abuses, and deficiencies	
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	
Section 5(a)(4)	Matters referred to prosecutive authorities	
Section 5(a)(5)	Summary of instances where information was refused	
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	
Section 5(a)(7)	Summary of each particularly significant report	
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	
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	
Section 5(a)(11)	Significant revised management decisions	
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	

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