

Office of Inspector General

LEGAL SERVICES CORPORATION

Semiannual Report to the Congress

October 1, 1998 - March 31, 1999

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

April 30, 1999

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

This Semiannual Report on the activities of the Office of Inspector General of the Legal Services Corporation covers the six-month period from October 1, 1998 through March 31, 1999. Section 5 of the Inspector General Act of 1978 requires that the Board of Directors, as the designated Federal entity head, transmit this report to the appropriate committees of the Congress within 30 days, together with its report commenting on the contents of the Report.

E. R. Quatrevaux
Inspector General

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EXECUTIVE SUMMARY

Three audit reports of grantee Case Statistical Reports were issued. The audits found significant inaccuracies in the information reported to LSC. (Page 2)

Nine reports of Audit Service Reviews were issued. One of the reviews found deficiencies in testing by the grantee's auditor, and determined that the audit report could not be relied on for assurance of grantee compliance with restrictions and prohibitions. (Page 3)

The Corporation's financial statements received an unqualified opinion by independent auditors in the audit report issued this period. (Page 3)

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

One theft of client trust funds was referred for prosecution, and a prior referral was declined by the U.S. Attorney's Office. (Page 7)

A proposed regulation on suspension and debarment of grantee auditors was published for comment. (Page 8)

INTRODUCTION

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 reports directly to the Board in its capacity as head of the entity. The Board also appoints the President of the Corporation, who serves as the principal management official of the Corporation.

Grant-Making Activities

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

Certification of Independence

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

AUDITS

During this reporting period, the OIG issued three audit reports on the accuracy of grantee Case Statistical Reports. The OIG also issued the annual Financial Statement Audit of the Corporation and nine Audit Service Review reports.

Review of Case Statistical Reports

The audits of grantee caseload reporting accuracy were based on the risk assessment that "the Corporation may not have sufficient accurate information with which to oversee, assess, and improve the performance of the delivery system." In addition, pending legislation would amend the "Results Act" to require Inspectors General to assess the accuracy and reliability of agency performance data beginning with the first "Results Act" performance reports due in March 2000.

In this period, the OIG completed three audits of grantee case statistical reports for 1997. Final audit reports were issued for Legal Services of Northern Virginia, Legal Services of Greater Miami, and the Legal Aid Society of San Diego, Inc. The latter two reviews found significant inaccuracies in the information reported to LSC. The two grantees reported approximately 28,000 telephone contacts and brief personal contacts as cases "referred after legal assessment," even though they did not meet LSC's definition of cases because eligibility determinations had not been made and no legal services were provided. Taken with other errors in closed cases accounting, these three grantees overstated the number of closed cases by about 38,000 cases, or 67 percent of the total reported.

The audits found fewer errors in the number of open cases reported, which are those open on the last day of the year. The accuracy of the open cases in grantee case management systems is important because an accurate database is essential to effective case management. However, open cases are not a reliable indicator of caseload because the vast majority of these cases will be reported as closed in the next year's tally. Two of the grantees audited overstated the number of open cases while the third understated the number.

The audits found that errors were introduced in a variety of ways in addition to improperly counting "referred" cases. Errors were caused by lack of electronic links between main and branch offices, data entry errors, counting non-LSC funded cases, and counting cases that were closed or should have been closed in prior years. However, the root cause of the problems were that grantee managers did not give sufficient attention to reporting requirements and did not adequately supervise the preparation of statistical reports. The OIG made 28 recommendations to the three grantees for improving reporting accuracy.

The OIG also conducted four additional 1997 case statistical audits in this period, and issued one draft report. The draft and final reports for the remaining audits will be issued in the next reporting period. The OIG will begin audits of 1998 case statistical reports in the next semiannual period.

Audit Service Review Reports

Audit service reviews (ASRs) examine the working papers of the independent public accountants (IPAs) who conduct the annual financial and compliance audits of LSC grantees. The objective of the ASRs is to determine whether the IPAs properly reviewed grantees' compliance with restrictions and prohibitions on legal services imposed by the Congress.

The OIG issued nine ASR reports during the period. One ASR found deficiencies in the testing procedures and determined that the IPA's audit report could not be relied on to provide assurance that the auditee complied with restrictions and prohibitions. The OIG required the audit firm to perform additional work to correct the deficiencies, which was subsequently completed. The other eight ASRs found that the IPAs adequately tested grantees' compliance with LSC regulations and that the audit reports provided reasonable assurance that grantees complied with LSC regulations.

Corporate Audit

The OIG issued an audit report on LSC's Fiscal Year 1998 financial statements. An independent public accounting firm, under contract with the OIG, issued an unqualified opinion on LSC's statement of financial position as of September 30, 1998, and on the related statements of operations and cash flows for the year then ended. The OIG confirmed that the accounting firm performed the audit in accordance with Government Auditing Standards and that the audit work provided a reliable basis for the opinion on LSC's Fiscal year 1998 financial statements.

→	<u>AUDIT REPORTS</u>	
	<i>Open at beginning of reporting period</i>	<i>7</i>
	<i>Issued during reporting period</i>	<i>4</i>
	<i>Closed during reporting period</i>	<i>5</i>
	<i>Open at end of reporting period</i>	<i>6</i>
→	<u>AUDIT SERVICE REVIEW REPORTS</u>	
	<i>Open at beginning of reporting period</i>	<i>0</i>
	<i>Issued during this period</i>	<i>9</i>
	<i>Closed during reporting period</i>	<i>9</i>
	<i>Open at end of reporting period</i>	<i>0</i>
→	<u>RECOMMENDATIONS TO LSC GRANTEEES</u>	
	<i>Open at beginning of reporting period</i>	<i>0</i>
	<i>Issued during this period</i>	<i>28</i>
	<i>Closed during reporting period</i>	<i>10</i>
	<i>Open at end of reporting period</i>	<i>18</i>
→	<u>RECOMMENDATIONS TO LSC MANAGEMENT</u>	
	<i>Open at beginning of reporting period</i>	<i>13</i>
	<i>Reported during this period</i>	<i>0</i>
	<i>Closed during reporting period</i>	<i>3</i>
	<i>Open at end of reporting period</i>	<i>10</i>

Prior Period Recommendations

There were ten open recommendations from prior reporting periods.

- ◆ Summary Report on Audits of Selected Grantees for Compliance with Selected Regulations. One recommendation on timekeeping procedures remains open. A revision to the timekeeping regulation is under consideration by the Board of Directors.
- ◆ Report on Inspection of Alternative Work Arrangements. Seven recommendations to improve LSC's alternative work arrangements program remain open. A new personnel manual is being drafted and is expected to address the recommendations.
- ◆ Legal Assistance Foundation of Chicago (Recipient No. 514020) - Compliance with Selected Regulations Performance Audit. One recommendation on adherence to the regulation covering class action suits remains open. The Office of General Counsel is reviewing Management's proposed actions in response to the recommendation.
- ◆ Legal Aid Bureau of Maryland, (Recipient No. 321016) - Compliance With Selected Regulations Performance Audit. One recommendation to review the applicability of the regulation on alien eligibility to children in long-term foster care remains open. The Office of General Counsel is reviewing the regulation to determine if changes are needed.

Audit Reports Issued

- ◆ Legal Services of Northern Virginia (Recipient No. 447007) - Review of Selected Parts of the Legal Services of Northern Virginia's 1997 Grant Activity Report and Timekeeping System and its Compliance with Selected Regulations
- ◆ Legal Aid Society of San Diego, Inc. (Recipient No. 805250) - Review of Case Statistics Report
- ◆ Legal Services of Greater Miami, Inc. (Recipient No. 610040) - Review of Case Statistical Reports

Audit Service Review Reports Issued

- ◆ Atlanta Legal Aid Society, Inc.
- ◆ Oakland Livingston Legal Aid
- ◆ Jacksonville Area Legal Aid, Inc.
- ◆ Ohio State Legal Services
- ◆ Legal Aid Bureau, Inc.
- ◆ Central Virginia Legal Aid Society, Inc.
- ◆ Peninsula Legal Aid Center
- ◆ Central Florida Legal Services, Inc.
- ◆ Georgia Legal Services Program

INVESTIGATIVE ACTIVITIES

Fifteen cases were opened and 12 cases closed in this reporting period. The OIG Hotline was contacted eight times.

A theft of client trust funds by employees of a grantee in Mississippi was referred to the Natchez District Attorney for prosecution.

The U.S. Attorney's Office declined a referral to prosecute an employee of a grantee in Georgia for falsification of reimbursement documents.

During this period, the OIG began a series of Client Trust Fund Inspections in support of its annual performance plan goals. Two inspections were completed and determined that the grantees were in general compliance with LSC requirements for trust fund administration. In both cases, the OIG suggested additional actions to improve internal controls over trust funds.

➤ <u>INVESTIGATIVE CASELOAD</u>	
<i>Open at beginning of reporting period</i>	21
<i>Opened during reporting period</i>	15
<i>Closed during reporting period</i>	< 12 >
<i>Open at end of reporting period</i>	24
➤ <u>INVESTIGATIONS OPENED</u>	
<i>Relating to LSC</i>	1
<i>Relating to LSC Grantees</i>	14
➤ <u>RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION</u>	
<i>Open from previous period</i>	0
<i>Reported during this reporting period</i>	0
<i>Closed during this period</i>	0
<i>Open at end of reporting period</i>	0
➤ <u>PROSECUTIVE ACTIVITIES</u>	
<i>Referred for prosecution this reporting period</i>	1
<i>Prosecution declined (from prior period referral)</i>	1
<i>Pending Action</i>	0
<i>Convictions</i>	0

LEGISLATIVE AND REGULATORY REVIEW

The OIG continued its involvement in the Corporation's regulatory process in the current reporting period by providing LSC management with comments on draft regulations. As appropriate, the OIG also provided comments on regulations to the LSC Board of Directors. OIG suggestions were aimed at ensuring that the regulations implement the intent of Congress, provide clear guidance, and facilitate both compliance by LSC grantees and the monitoring of compliance. The OIG also provided comments on the interpretive guidance that LSC management provided to the grantees.

The OIG published for comment in the *Federal Register* a proposed regulation which would satisfy the statutory requirement that the OIG develop rules of practice to implement its authority to debar, suspend and remove the auditors performing the annual financial statement audits of LSC grantees.

TABLE I
Audit Reports Issued with Questioned Costs
for the Period Ending March 31, 1999

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

TABLE II

**Audit Reports Issued with Funds to be Put to Better Use
for the Period Ending March 31, 1999**

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

TABLE III

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

IG ACT*** REFERENCE	REPORTING REQUIREMENT	PAGE
Section 4(a)(2)	Review of legislation and regulations	8
Section 5(a)(1)	Significant problems, abuses, and deficiencies	2
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	3
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	5
Section 5(a)(4)	Matters referred to prosecutive authorities	7
Section 5(a)(5)	Summary of instances where information was refused	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	5
Section 5(a)(7)	Summary of each particularly significant report	2
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	9
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	10
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	None
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None

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