

# LEGAL SERVICES CORPORATION



## Office of Inspector General

Semiannual Report to the Congress  
April 1, 2019 – September 30, 2019

**LSC** | America's Partner  
for Equal Justice

LEGAL SERVICES CORPORATION

[www.oig.lsc.gov](http://www.oig.lsc.gov)

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

**A MESSAGE FROM THE INSPECTOR GENERAL**

I am pleased to submit this report on the activities and accomplishments of LSC's Office of Inspector General (OIG) for the period April 1, 2019, through September 30, 2019.

During this reporting period our audit office issued three reports. Two audit reports focused on the adequacy of LSC grantees' internal controls, particularly with respect to financial operations. The reports documented specific internal control weaknesses and areas of concern and made recommendations for corrective action. Notably, the grantees agreed with at least 94% of our recommendations, with responses pending on the balance.

We also provided oversight for the annual audit of the Corporation's financial statements, conducted by an independent certified public accounting firm under contract to the OIG. The auditors issued a "clean opinion" on the financial statements. Their accompanying report on internal control over financial reporting identified a deficiency that they deemed a material weakness. The Corporation noted in its response to the report that LSC management had identified the underlying issue and had itself brought it to the auditors' attention. The Corporation agreed with the IPA's findings and recommendations and has taken steps to address the issue.

We continued our Quality Control Review (QCR) program, to provide enhanced oversight of the independent audits required annually of LSC grantees. During the period we issued 17 QCRs.

In addition to following up with the individual audit firms and grantees after each QCR, we provided an advisory memorandum to all grantees' independent auditors and executive directors, summarizing the results of the reviews conducted over the preceding fiscal year and identifying the principal exceptions and deficiencies found. These reports and overall QCR process identify any systemic issues and help prevent the repetition of similar problems in future audits.

We also issued a bulletin to executive directors and grantees' independent auditors pertaining to the 2018 Revision of Government Auditing Standards issued by the Government Accountability Office. The bulletin presented a high-level summary of some of the significant

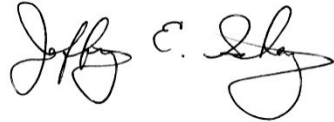
changes to the 2011 Yellow Book and provided resources for grantees and their auditors to obtain information about the revision.

Our investigations office opened 25 new cases and closed 29 cases during the reporting period. The investigations involved a variety of criminal and regulatory matters, including fraud, false claims, theft, the unauthorized practice of law, and program integrity violations. Criminal charges were filed in three cases arising from OIG investigations. Our investigations also led to the full restitution to grantees of over \$20,500 in stolen funds.

We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. We maintained an active calendar of grantee visits, including fraud awareness briefings and vulnerability assessments.

I wish to express my appreciation to all the members of the Board of Directors for the interest and support they have shown for the work of the OIG. I also remain deeply appreciative to the Congress for its steadfast support of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey E. Schanz". The signature is written in a cursive style with a large, stylized "J" and "S".

Jeffrey E. Schanz  
Inspector General  
October 31, 2019

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## OFFICE OF INSPECTOR GENERAL OVERVIEW

The LSC Office of Inspector General operates under the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3. The OIG has two principal missions: (1) to promote economy and efficiency in the activities and operations of LSC and its grantees; and (2) to prevent and detect fraud and abuse.

Our primary tool for achieving these missions is objective and independent fact-finding. We perform financial and other types of audits, evaluations, and reviews, and conduct criminal and regulatory compliance investigations. Our fact-finding activities enable us to develop recommendations for LSC and its grantees, as well as for Congress, for actions that will correct problems, better safeguard the integrity of funds, and increase the economy, efficiency, and effectiveness of LSC programs.

The OIG is also tasked with ensuring the quality of audits of LSC and its grantees, and with reviewing proposed and existing regulations and legislation affecting the operations and activities of LSC and the programs it funds.

In addition, since 1996, LSC's annual appropriations have directed that grantee compliance with legal requirements be monitored through the annual grantee audits conducted by independent public accountants, under guidance provided by the OIG. Congress has also specified that the OIG has authority to conduct its own reviews of grantees.

LSC's 2019 appropriation (exclusive of OIG operations) was \$409.9 million. LSC received an additional \$15 million in disaster relief grant funding. The Corporation provides funding to 132 independent nonprofit legal aid programs throughout the U.S. and its territories.

The OIG is headed by an Inspector General (IG), who reports to and is under the general supervision of the LSC Board of Directors. The IG has broad authority to manage the organization, including setting OIG priorities, directing OIG activities, and hiring OIG personnel and contractors.

To ensure objectivity, the IG Act grants the LSC IG independent authority to determine what audits, investigations, and other reviews are performed, to gain access to all necessary documents and information, and to report OIG findings and recommendations to LSC management, its Board of Directors, and directly 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 *et seq.*, other than those transferred to the OIG under the IG Act and those otherwise assigned by Congress, in LSC's annual appropriations acts.

The IG reports 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 finds that there are reasonable grounds to believe that a crime has occurred. The IG is required by law to keep Congress informed of the activities of the office through semiannual reports and other means. The IG also provides periodic reports to the board and management of LSC and, when appropriate, to the boards of directors and management of LSC grantees. Some of these reports are specific (e.g., an audit of a particular grantee or an investigation of a theft or embezzlement), while others are of broader application.

Within their different statutory roles, the OIG and LSC management and staff strive to enable LSC to most effectively pursue its mission of promoting and supporting equal access to justice for low-income persons.

## AUDITS

As discussed below, during this reporting period the OIG issued two reports with respect to grantee operations and a year-end financial statement audit of LSC. At the conclusion of the period, we had four projects underway.

The OIG has responsibility for overseeing the IPA audits performed annually at each grantee. During the reporting period, we reviewed 121 IPA reports, with fiscal year ending dates ranging from December 31, 2018, through January 31, 2019.

We issued 17 Quality Control Review (QCR) reports this period. The goals of the QCR initiative are to improve the overall quality of the IPA audits and to ensure that all audits are conducted in accordance with applicable standards and with the guidance provided by the OIG.

We also issued a special bulletin to grantees and their independent auditors summarizing recent changes to Government Auditing Standards made by GAO, and providing resources for obtaining additional information about the new provisions.

### **East River Legal Services**

The OIG assessed the adequacy of selected internal controls in place at East River Legal Services (ERLS). The OIG conducted onsite work at the grantee's administrative office, located in Sioux Falls, South Dakota. While some of the controls were adequately designed and properly implemented, we found that controls in the areas detailed below needed to be strengthened and/or formalized in writing.

We identified the following as areas that needed improvement:

- ERLS did not follow their written methodology when allocating two attorneys' fees totaling \$11,818. LSC funds wholly supported both cases and the attorneys' fees should have been fully allocated to LSC but were allocated to other funding sources. (The OIG referred this amount as a questioned cost to LSC management for review and action.)
- ERLS lacked adequate documentation of the executive director's approval of 14 of the 50 cash disbursements tested, totaling \$30,957, and of three of 51 credit card transactions tested, totaling \$1,036.
- ERLS did not have a payment voucher attached to 16 of 50 cash disbursements, totaling \$17,161. No payment voucher was attached to 13 of 51 credit card transactions, totaling \$2,851. ERLS policy required the use of payment vouchers for all non-payroll payments.



- ERLS issued 35 out of 366 checks out of numerical sequence. These checks totaled \$39,769. (The OIG did not find that any checks were missing.) The LSC Accounting Guide provides that disbursements are to be made with prenumbered checks used in numerical sequence.
- ERLS did not have a signed credit card user agreement form for all credit card users.
- ERLS' property records had several deficiencies. The property records lacked required elements, including identification numbers and item location, among others. The property records also contained some errors:
  - two laptops were mislabeled as desktop computers;
  - six desktops were incorrectly listed as one server; and
  - four items denoted as disposed were still in active use.
- ERLS was not in compliance with their contracting policy requiring that a written evaluation must be performed for purchases between \$1,000 and \$10,000.
- ERLS had inadequate contract documentation, as follows:
  - None of the eight contracts tested, totaling \$169,793, had documentation on file as to the process used for each contract action.
  - Six of the eight contracts, with payments totaling \$74,006, had no documented sole-source justification on file.
  - One of the eight contracts, with payments totaling \$23,381, did not detail the total contract amount, billing rate, and payment terms.
  - One of the eight contracts, with payments totaling \$27,467, did not detail the payment terms.
  - One contract's cost cap was exceeded.
- ERLS' written policies and procedures had inadequacies in the following areas: cash disbursements, fixed assets, cost allocation, payroll, employee benefits, and internal reporting and budgeting.

The OIG made 16 recommendations:

- One recommendation related to derivative income and addressed the need to ensure that all derivative income is allocated in compliance with LSC requirements and ERLS' written policies.
- Four recommendations related to disbursements and addressed the need:
  - to update ERLS' policies to comply with LSC regulations, as well as to reflect current practices;

- to ensure timely review and approval of all transactions before funds are disbursed and to ensure that such reviews are dated;
- to ensure that ERLS' practices involving payment vouchers are in accordance with their written policies and that voucher forms are adequately prepared for each disbursement when required; and
- to ensure checks are issued sequentially and not postdated.
- Four recommendations related to credit cards and addressed the need to ensure that:
  - ERLS trains staff to recognize LSC-unallowable expenses and that LSC funds are not used to pay unallowable membership dues and fees;
  - all transactions are approved before a commitment of resources is made, and that adequate documentation of the date of review is provided;
  - voucher forms are adequately prepared for each transaction where required; and
  - ERLS' policy requiring a signed agreement for each credit card user is enforced.
- Three recommendations related to fixed assets and addressed the need to ensure that:
  - ERLS' written policies are updated to provide guidance for the disposal of fixed assets, including those that may contain sensitive information, and provide for the delegation of responsibility for tagging inventory;
  - ERLS adds information required by LSC to the property records and verifies that all information in the property records is accurate; and
  - ERLS updates the property records with accurate and complete information, and conducts a physical inventory and reconciles the results with the property records.
- Three recommendations related to contracting and addressed the need to ensure that:
  - ERLS writes, signs, and maintains contracts for all business arrangements, fully documenting the agreed-upon cost, payment, and other terms, and periodically reviews contracts to ensure the terms are properly defined and current;
  - ERLS fully documents in writing the process for each contract action, including sole-source justification or documentation of competition if competitively bid; and

- ERLS maintains a centralized filing system for all contracts containing all pertinent documents related to the solicitation of bids, including receipt and evaluation of bids, sole-source justification, vendor selection, a signed contract or agreement, and any agreed-upon modifications to a contract or agreement.
- One recommendation addressed the need to ensure ERLS includes written policies and procedures in the areas of cost allocation, payroll, employee benefits, and internal reporting and budgeting in their accounting manual. The policies should describe ERLS' processes and controls in sufficient detail and in accordance with LSC requirements. They should also reflect the current staff assigned to specific duties.

ERLS agreed with all 16 recommendations. The grantee completed corrective actions regarding one recommendation and the OIG considers this recommendation closed. The OIG considers the grantee's proposed actions to seven recommendation as partially responsive and to eight recommendations as responsive. These 15 recommendations will remain open pending appropriate action and receipt of supporting documentation.

Although the grantee management's proposed actions were responsive to the recommendation related to derivative income, the OIG questioned a total of \$11,818 of derivative income in the form of attorneys' fees. As noted above, this amount was referred to LSC management for resolution.

### **Legal Aid of East Tennessee**

The OIG assessed the adequacy of internal controls in place at Legal Aid of East Tennessee (LAET). The onsite work was conducted at the grantee's administrative office, located in Chattanooga, Tennessee. While the grantee had adequately designed and implemented certain controls, we found that controls in the areas detailed below needed to be strengthened and/or formalized in writing.

We identified the following as areas that needed improvement:

- LAET incorrectly allocated attorneys' fees totaling \$2,720. Of this amount, \$1,836 should have been allocated to LSC but was allocated to non-LSC funding sources. (The OIG referred this amount to LSC management as a questioned cost for review and appropriate action.)
- LAET offered a vacation buy-back program that allowed employees the opportunity to be compensated for up to 37.5 hours of vacation leave annually, with these hours deducted from their accrued leave. We found that:
  - upon compensation, LAET did not deduct hours from participating employees' vacation accruals in 2016;

- upon compensation, LAET did not timely deduct hours from participating employees' vacation accruals in 2017;
- all five sampled employees who participated in the 2017 vacation buy-back had their hours converted to sick leave rather than deducted from their vacation accruals (the grantee corrected this error in November 2018); and
- ten employees who participated in the vacation buy-back and were later terminated were compensated twice: once when they participated in the program, and again when they were terminated, due to LAET not deducting the hours from the employees' accruals.
  - For the 2016 buy-back, five employees were overpaid an amount totaling \$3,822; \$1,317 of these costs were charged to LSC.
  - For the 2017 buy-back, five employees were overpaid an amount totaling \$2,740; \$2,102 of these costs were charged to LSC.

(The OIG referred \$3,419, the amount of overpayment charged to LSC, to LSC management as a questioned cost.)
- LAET had a volunteer arrangement with the director of finance's father, who performed various tasks within the finance department. The volunteer agreement was inadequate and lacked pertinent information. It did not explicitly state that the party was a volunteer, or describe the work, time commitment, or other relevant factors, such as training, equipment, and work location of the volunteer. The arrangement also created a possible conflict of interest with the volunteer working in the finance department run by his daughter.
- LAET had three disbursements for trophies, awards, and non-mandatory bar dues totaling \$2,820, that were deemed unallowable by the OIG under LSC regulations. (The OIG referred this amount to LSC management as a questioned cost for review and appropriate action.)
- LAET did not have adequate segregation of duties over the master vendor list, payment approvals, and check handling.
- Of the 157 disbursements reviewed by the OIG, totaling \$349,023, we found that:
  - 57 disbursements, totaling \$96,791, lacked adequate supporting documentation;
  - 74 disbursements, totaling \$154,399, lacked appropriate approval; and
  - 51 disbursements, totaling \$79,769, did not have an appropriate check request form or request for expense form.

- LAET did not require cardholders to sign a user agreement form for use of company debit cards.
- LAET lacked segregation of duties over reconciliations: debit cardholders with accounts payable functions were performing reconciliations of bank statements that included transactions made with their cards.
- LAET's debit cardholders had a daily spending limit of \$5,000, which appeared excessive.
- LAET did not adequately maintain debit card receipts and supporting documentation. During our review, we noted the following:
  - Six transactions totaling \$983 did not have accompanying receipts or supporting documentation.
  - 38 transactions totaling \$16,534 did not have adequate support detailing the purpose of the transaction.
  - 28 transactions could not be traced to an initiating employee; these totaled \$9,935.
  - 43 transactions totaling \$35,697 did not have a documented request made to the cardholder.
- LAET had inadequate contracting policies and procedures: it did not detail contracting procedures for various types of contracts, such as consulting, personal service, and sole-source procurements. LAET's policies also still referred to the LSC PAMM (Property Acquisition and Management Manual) for guidance; the PAMM was superseded in 2017 by the new 45 C.F.R. Part 1631.
- LAET did not maintain contracts in a central location, and some contracts could not be located.
- LAET did not adequately maintain contract records: some contracts were completely missing; available contracts were incomplete, including missing signatures, start dates, competitive bids, sole-source justifications, and approvals.
- LAET did not utilize the cost allocation methodology stipulated in its Accounting and Internal Control Manual.
- LAET did not have an up-to-date information technology (IT) equipment record. Records of electronic devices containing sensitive information were not adequately maintained.
- LAET had six terminated employees listed as authorized check signers for one of its bank accounts.

- LAET did not have proper segregation of duties with respect to its accounting system and cash disbursements process: employees with access to the accounting system had the ability to add, edit, and process cash disbursements.
- LAET had two out of 13 outstanding checks listed in their February 2017 reconciliation that were not resolved timely. These checks were still outstanding as of the February 2018 statement.
- LAET's controls over bank reconciliations were inadequate: an employee who had been reconciling the accounts was a regular check signer and was also initiating electronic transactions and performing bookkeeping duties.
- Of the 12 LAET bank reconciliations reviewed, all had at least one exception, and eleven had multiple exceptions. Deficiencies included:
  - Five were missing documentation as to who prepared the reconciliation and the date of preparation.
  - Nine were not performed timely.
  - Five were not reviewed.
  - Five were not reviewed timely.
  - One was missing the date of review.
  - Two did not have evidence of reconciliation to the general ledger.
- LAET's written policies and procedures had inadequacies in the following areas: debit cards, contracting, fixed assets, and general ledger and financial controls.

The OIG made 32 recommendations:

- One recommendation related to derivative income, addressing the need to fully train personnel and implement LSC requirements related to the allocation of income derived from attorneys' fees.
- Three recommendations related to employee benefits, addressing the need:
  - to implement controls to deduct vacation buy-back hours from employees' accruals timely and properly;
  - to deduct the vacation buy-back hours identified by the OIG and any other past vacation buy-back hours that have been taken by existing employees from their accrued vacation time; and
  - to attempt to recover funds, to the extent consistent with law, from terminated employees that were overpaid.

- Two recommendations related to the grantee’s volunteer agreement, addressing the need:
  - to enhance the agreement with pertinent information such as terms and duties of the volunteer; and
  - to evaluate the duties assigned to the volunteer and ensure they do not create a conflict of interest or a deficiency in segregation of duties.
  
- Five recommendations related to disbursements, addressing the need:
  - to ensure that LSC funds are not used for unallowable purposes;
  - to implement segregation of duties over the master vendor list and ensure that the list is regularly purged and maintained to reflect active vendors’ current information;
  - to maintain adequate supporting documentation for disbursements including: support for miles claimed on monthly travel logs, original invoices, receipts, and all travel related documents;
  - to document approvals by an authorized individual before invoices are paid; and
  - to streamline and enforce policies and procedures regarding Request for Expense/Purchase forms to be completed by the requestor.
  
- Five recommendations related to debit cards, addressing the need:
  - to require debit cardholders to sign a written user agreement form and to maintain such forms in the grantee’s records;
  - to ensure bank reconciliation duties are segregated so that debit cardholders with accounts payable functions are not performing their own reconciliations;
  - to reevaluate the \$5,000 daily spending limit for each cardholder to ensure the limit is reasonable given the business purpose;
  - to ensure that all receipts and supporting documentation are maintained and filed with the debit card statements, and to ensure that requests from non-cardholders are documented and approved by the cardholder and maintained with statements and supporting documentation; and
  - to develop written policies and procedures related to debit or credit cards.
  
- Five recommendations related to contracting, addressing the need:
  - to ensure the grantee’s Accounting and Internal Control Manual is updated to include oversight requirements and procedures for different types of

- contracts, and to reflect that the LSC Property Acquisition and Management Manual is no longer in effect and was superseded by 45 C.F.R. Part 1631;
- to ensure that actual practices regarding the maintenance of contracts conform to the policies described in the grantee's Accounting and Internal Control Manual as well as the LSC Accounting Guide;
  - to establish and maintain a centralized filing system for all contracts that contains all related documents;
  - to ensure that contract agreements, especially those recurring in nature, are written, signed, dated, and maintained for business arrangements; and
  - to ensure that the process (such as sole-source justification and documentation of competition) and approval for each contract action is fully documented in writing.
- One recommendation related to cost allocation, addressing the need to develop and implement an adequate cost allocation methodology, as well as the need for the director of finance to perform outstanding cost allocations and ensure that subsequent allocations are performed timely and in accordance with 45 CFR Part 1630.
  - Four recommendations related to fixed assets, addressing the need:
    - to update written policies and procedures to include: elements required by LSC's Fundamental Criteria; procedures for tracking electronic devices containing sensitive information that are not capitalized; procedures for the disposition of electronic devices containing sensitive information; procedures for the disposition of personal property or real estate purchased with LSC funds; procedures describing the depreciation methods to be used; and procedures stating what a request for prior approval should contain;
    - to ensure that the grantee's accounting manual reflects the property record system procedures that are currently implemented in practice;
    - to ensure that all relevant devices are reconciled to the current IT equipment record; and
    - to ensure that electronic devices containing sensitive information are easily traceable, with a location for each relevant item included in the IT equipment record.
  - Six recommendations related to general ledger and financial controls, addressing the need:
    - to ensure that the authorization to sign checks is promptly canceled when an employee leaves the organization;



- to segregate duties within the organization's accounting system so that no individual can initiate, execute, and record a transaction without a second independent person being involved in the process;
- to adhere to the grantee's written policy of voiding outstanding checks after six months;
- to ensure that bank statements are reconciled monthly to the general ledger by an employee who has no access to cash, is not a regular check signer, and has no cash bookkeeping duties; and that no single employee has the authority to initiate electronic transactions and perform bookkeeping duties;
- to perform the bank reconciliation process timely, reconcile statements to the general ledger, and document the process on the reconciliation sheet by signature and date; and
- to update LAET's Accounting and Internal Control Manual to reflect the current threshold for expenditures requiring LSC approval, and require a clear segregation of duties over bank reconciliations.

The grantee agreed with 29 of the recommendations and partially agreed with one recommendation. The responses for two recommendations were pending the grantee's consultation with outside counsel.

The OIG considers the proposed corrective actions for 12 recommendations to be fully responsive and considers the recommendations to be closed. The proposed actions for 18 recommendations are considered responsive; however, they will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation is provided. The OIG considers the proposed actions for two recommendations as partially responsive, pending grantee's consultation with legal counsel. These two will remain open pending appropriate action and receipt of documentation.

The OIG questioned costs totaling \$8,075 related to improper allocation of attorneys' fees, overpayments to employees, and unallowable expenses. This amount was referred to LSC management for resolution.

### **FY 2018 Corporate Audit**

The Corporation's FY 2018 financial statement audit was conducted by an independent public accounting firm, under contract and subject to general oversight by the OIG. The OIG reviewed the work of the firm and found it in compliance with generally accepted government auditing standards. The Corporation received an unqualified opinion on the audit of its financial statements.

The auditors' Report on Internal Control over Financial Reporting identified a deficiency

that they deemed a material weakness. They reported that sufficient accounting resources and/or personnel with appropriate skill sets and quality control procedures were needed to promptly identify financial reporting and accounting discrepancies. A prior period adjustment was needed to correct the financial statements. The Corporation noted in its response to the report that LSC management had identified the underlying issue and had itself brought it to the auditors' attention. The Corporation agreed with the IPA's findings and recommendations and has taken steps to address the issue.

The auditors' Report on Compliance and Other Matters identified no reportable noncompliance with laws and regulations.

## Statistical Summary

### Audits

Open at beginning of reporting period .....	7
Opened during the period .....	1
Audit reports issued or closed during reporting period .....	4
Open at end of reporting period .....	4

### Recommendations to LSC Grantees

Pending at beginning of reporting period .....	36
Issued during reporting period .....	48
Closed during reporting period .....	31
Pending at end of reporting period .....	53

### Recommendations to LSC Management

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

## **Oversight of IPA Audits**

### **Independent Audits of Grantees**

Since 1996, LSC's annual appropriation acts have required that each person or entity receiving financial assistance from the Corporation be subject to an annual audit by an independent public accountant (IPA). Each grantee contracts directly with an IPA to conduct the required audit in accordance with generally accepted government auditing standards and the OIG Audit Guide for Recipients and Auditors (including the Compliance Supplement), which incorporates most requirements of the Uniform Guidance regulations, 2 CFR 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).

The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA audit process. Our oversight activities, detailed below, include desk reviews and a quality control program with independent onsite reviews. Additionally, during the period, the OIG issued a bulletin pertaining to the 2018 Revision of Government Auditing Standards, as well as an advisory memorandum on the results of our Quality Control Reviews of FY 2017 financial statement audits performed by IPAs.

### **Desk Reviews of IPA Reports**

The OIG conducted desk reviews of all IPA reports issued to grantees to identify potential problems or concerns that may warrant follow-up via audit, investigation, or other review. The results of our desk reviews are used as part of our risk assessment and planning processes and shared with LSC management. We also review recommendations to determine whether the grantees' responsive actions were appropriate.

### **Bulletin on Revised Auditing Standards**

During the period, The OIG issued a bulletin pertaining to the 2018 Revision of Government Auditing Standards (often referred to as the Yellow Book), issued by the Government Accountability Office. The 2018 Yellow Book supersedes the 2011 Yellow Book and is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020. It is effective for performance audits beginning on or after July 1, 2019. The bulletin addressed the revisions related to financial audits.

We issued the bulletin to LSC grantee executive directors and the IPAs with whom they contract to conduct their annual financial statement audits. It is a high-level summary of some of the significant changes to the Yellow Book, especially those related to independence. It also provided resources for grantees and their IPAs to obtain information about the revision.

The OIG encouraged grantees and IPAs to carefully review, consider, and implement the requirements and guidance included in the 2018 Revision of the Yellow Book.

### **Quality Control Reviews**

We began the ninth year of our Quality Control Review (QCR) initiative. Under this program, IPA firms performing grantee audits are subject to review to determine whether their work is being conducted in accordance with applicable standards and with the instructions issued by our office. The reviews are conducted by a CPA firm under contract to the OIG. The contractor also identifies issues that may require further attention or additional audit work by the IPA under review.

During this reporting period, we conducted 17 QCRs of FY2017 audited financial statements.

Five QCRs met standards with no exceptions. Twelve of the QCRs met standards with one or more exceptions, seven of which required the IPA to perform additional work and provide documentation to support their conclusions. The additional work and documentation required of the seven IPAs was not due to the OIG until after the close of this reporting period. For five of the 12 QCRs that met standards with exceptions, we issued recommendations to the IPAs to implement in future audits of grantees.

During the previous reporting period, we found that seven of the grantee's financial statement audits for the fiscal year ending 2017 met standards with exceptions. The OIG issued notices to the IPAs requiring them to perform corrective action and provide additional information to address the deficiencies. We evaluated the additional work performed by six of the IPAs in this reporting period and accepted all six audits.

The OIG issued an advisory memorandum summarizing the results of QCRs of FY 2017 financial statement audits performed by IPAs. The advisory memorandum noted the following overarching findings for 35 QCRs, 11 of which met standards with no exceptions, and 24 of which met standards with one or more exceptions:

- some IPAs did not adequately review and/or document their evaluation of compliance with LSC requirements;
- some IPAs' work did not adequately demonstrate compliance with the Uniform Guidance; and
- some IPAs' work needed improvement to ensure compliance with GAGAS and AICPA standards.

The OIG made a number of general recommendations, as well as more specific recommendations to address the most common QCR findings. We encouraged the IPAs and executive directors to use the summary information in planning and conducting ongoing and future audits of LSC grantees.

## **Follow-up Process**

LSC's annual appropriation acts have specifically required that LSC follow-up on significant findings identified by the IPAs and reported to the Corporation's management by the OIG. IPA audit reports are submitted to the OIG within 120 days of the close of each grantee's fiscal year. As noted above, through our desk review process the OIG reviews each report and refers appropriate findings and recommendations to LSC management for follow-up. LSC management is responsible for ensuring that grantees submit appropriate corrective action plans for all material findings, recommendations, and questioned costs identified by the IPAs and referred by the OIG to management.

After corrective action has been taken by a grantee, LSC management notifies the OIG and requests that the finding(s) be closed. The OIG reviews management's request and decides independently whether it will agree to close the finding(s).

## **Review of Grantees' Annual Audit Reports: IPA Audit Findings**

In order to provide more complete information in our semiannual reports to Congress, the OIG customarily includes a summary of significant findings, and the status of follow-up on such findings, reported by the IPAs as part of the grantee oversight process. The audit reports and the findings reflect the work of the IPAs, not the OIG.

During this reporting period, the OIG reviewed a total of 121 IPA audits of grantees with fiscal year ending dates from December 31, 2018, through January 31, 2019. Of the 121 audits, 12 are sub-recipients of LSC funds. These audit reports contained 100 findings. The OIG reviewed the findings and determined that 62 were either not significant, or that corrective action had already been completed. The remaining 38 findings were referred to LSC management during the period for follow-up. The following tables present information on those findings.

**Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2018, through January 31, 2019**

Total Number of Findings Referred .....	38
Number of Findings Accepted for Review by LSC Management.....	38
Number of Findings Pending Determination by LSC Management.....	0

**Types of Findings Referred to LSC Management for Follow-up**

<b><u>Category</u></b>	<b><u>Number of Findings</u></b>
Policies and Procedures/Other.....	14
Financial Transactions and Reporting .....	12
Missing Documentation .....	5
Timekeeping.....	4
Segregation of Duties.....	3
TOTAL.....	38

## **INVESTIGATIONS**

During this period, OIG investigations resulted in one indictment, two criminal charges, one sentencing action, one termination, one recovery, and restitution orders totaling over \$20,500. We also made a referral to LSC management for questioned costs of \$10,727.

The OIG opened 25 cases during the period. These included 13 investigative cases, six Regulatory Vulnerability Assessments, and six Fraud Vulnerability Assessments. The investigative cases included allegations of theft, contracting fraud, prohibited political activity, the unauthorized outside practice of law, diversion of clients for personal gain, time and attendance fraud, and other potential violations of LSC statutes and regulations.

The OIG closed 29 cases during the reporting period. These included 15 investigative cases, six Regulatory Vulnerability Assessments, four Fraud Vulnerability Assessments, one questioned cost case, and three administrative cases. The OIG also issued one fraud prevention advisory during this reporting period.

### **Criminal Proceedings**

#### **Indictment of a Former Grantee Attorney**

Based on an OIG referral to a district attorney's office, a former grantee attorney was indicted for theft in the first degree.

The former grantee attorney violated the LSC regulation governing the outside practice of law and charged an outside client \$3,889 in legal fees. The attorney provided no meaningful legal services to the client despite receiving payment for services. Upon becoming aware of these activities, the grantee reimbursed the client's loss and terminated the attorney's employment.

On July 19, 2019, a court order was entered documenting the parties' agreement that the former grantee attorney would pay \$3,889 to the grantee, the amount of full restitution. Pursuant to the agreement the indictment was dismissed, subject to reinstatement if the defendant fails to make the agreed payments.

#### **Criminal Charges Filed Against a Former Supervising Attorney and a Contract Attorney**

Based on an OIG referral to a district attorney's office, a former grantee supervising attorney and a contract attorney were charged with conspiracy to commit a crime, grand theft, and commercial bribery.



Our investigation found that the former supervising attorney and contract attorney devised a scheme to defraud the grantee and clients. An arraignment hearing is scheduled for December 9, 2019.

### **Sentencing of Former Director of Information Technology**

As a result of an OIG investigation previously reported in our April 2019 Semiannual Report to Congress, a former director of information technology (IT) was sentenced in federal court. The investigation found that the former director of IT used the grantee's credit card to make numerous purchases of sports memorabilia, which he then sold for personal profit. He created fake invoices so that the purchases appeared to be legitimate business-related purchases. He was indicted on multiple counts of theft of government property and theft from a program receiving federal funds.

On March 22, 2019, the former employee pled guilty to one count of theft of government property. Under the terms of the plea agreement, the former employee is required, among other things, to make full restitution to the grantee, and to not seek or obtain employment by any government entity (federal, state, or local), or any private entity in which his compensation is funded by any level of government.

On August 2, 2019, the former employee was sentenced to 24 months of probation and was ordered to pay a \$1,000 fine and a special assessment. Prior to the hearing, the former director of IT paid \$16,652, the amount of full restitution to the grantee.

## **Personnel and Recovery Actions**

### **Termination of Grantee Accountant**

The OIG opened an investigation based on a grantee's report that a petty cash box containing nearly \$500 was missing. In the course of the OIG investigation and an internal review by the grantee, the grantee's internal accountant came forward and admitted to the theft of cash. The individual also admitted to having stolen \$1,180.50 by making a double payroll payment to herself. The accountant made full restitution to the grantee. Her employment was terminated.

### **Questioned Cost Referral Regarding Former Executive Directors' Travel Stipends and Expenses**

An OIG investigation identified potential unallowable costs related to monthly travel stipends received by a grantee's former executive director and his interim successor. The former executive director also incurred charges for meals and hotel expenses that were potentially unreasonable and unallowable.

The OIG found that for a number of years the former executive director had been receiving travel stipends of \$400 per month that were never offset against his actual travel expenses and therefore constituted duplicate payments. The successor interim executive director received the same travel stipends for several months, which again were not offset against actual expenses. A total of \$8,596 in duplicative travel stipends charged to LSC funds was identified for the period reviewed. The OIG also identified questionable charges by the former executive director for meal and hotel expenses amounting to \$2,131.

The OIG referred a total of \$10,727 as potential questioned costs to LSC management.

### **Fraud Prevention Initiatives**

The OIG maintains an active fraud prevention program, engaging in a variety of outreach and educational efforts intended to help protect LSC and its grantees from fraud and abuse. We regularly conduct Fraud Awareness Briefings (FABs), Fraud Vulnerability Assessments (FVAs), and Regulatory Vulnerability Assessments (RVAs). We provide fraud alerts and other information to help increase grantees' awareness of developing trends that may pose a risk to LSC funds. The OIG also developed a new fraud prevention initiative, "The Fraud Corner."

### **Fraud Awareness Briefings**

FABs are presented by experienced OIG investigative staff and cover topics such as: who commits fraud; what conditions create an environment conducive to fraud; how can fraud be prevented or detected; and what to do if fraud is suspected.

While employees at LSC-funded programs may generally be aware that fraud and abuse can occur at any organization, they may not be aware of the potential for such incidents to occur within their own programs. FABs highlight the unfortunate truth that a number of LSC-funded programs have been victimized by frauds involving hundreds of thousands of dollars, and in one case the diversion of over a million dollars in grant funds.

The FABs describe common types of fraud, with particular focus on the various schemes that have been perpetrated against LSC grantees and the conditions that helped facilitate the losses. The briefings aim to foster a dialogue with staff and to engender suggestions for ways to help protect their own programs from fraud and abuse.

Since initiating the FAB program in 2009, we have conducted 160 briefings for grantees and subgrantees in all 50 states, the District of Columbia, and five territories, as well as briefings for the LSC Board of Directors, LSC headquarters personnel, a presentation at a National Legal Aid and Defender Association annual conference, and nine webinars that reached multiple grantees.

Two FABs were completed at grantees' locations, and two FAB webinars were provided for new executive directors and other employees at nine different grantees during this reporting period.

### **Fraud Vulnerability Assessments**

FVAs are conducted at LSC grantee offices and include a focused document review in areas considered high risk or prone to abuse. We also review the grantee's internal control policies, and the degree to which they are actually complied with in practice. Finally, we conduct a personal briefing for the executive director and principal financial officer on fraud detection and prevention measures appropriate to their particular program.

A typical FVA can include reviews of credit card transactions, petty cash accounts, bank account reconciliations, travel claims, office supply expenses, and other selected areas that have been linked to the commission of fraud at grantee programs. FVAs can help grantees identify both existing vulnerabilities and potential problem areas. FVAs sometimes detect ongoing fraud or abuse, which may result in further investigation. FVAs also serve as a deterrent by helping grantee staff members become aware of the potential for fraud and reminding them that the OIG will investigate and seek to prosecute cases involving fraud or misuse of LSC grant funds.

Four FVAs were closed during the reporting period.

### **Regulatory Vulnerability Assessments**

We began conducting RVAs based our experience in investigating financial frauds in which grantees were victimized. We often found that noncompliance or laxity with respect to certain regulatory and other requirements contributed to an environment that increased the potential for fraud. RVAs, conducted at grantee offices, seek to determine whether the grantee is following applicable provisions of the LSC Act, LSC regulations, grant assurances, provisions of the Accounting Guide, and the case documentation and reporting requirements of LSC's Case Service Report Handbook. We have found that by focusing our reviews on certain key areas, we are able to assist grantees in identifying regulatory compliance issues that could also lead to broader potential financial vulnerabilities.

Six RVAs were closed during the reporting period.

### **"The Fraud Corner"**

"The Fraud Corner," a feature we recently added to our website, highlights fraud prevention issues identified through OIG investigative activities. This reporting period we

posted an article describing current and past OIG investigations into insider threats to grantee IT systems.

We reported on incidents where someone with authorized access to a grantee's IT system compromised the system by damaging a component within the system, or by deleting, stealing, or changing sensitive information.

The article also provided guidance to grantees on the circumstances which could provide the opportunity for insider threats, and policies and procedures to help prevent and detect insider threats.

### **Management's Positive Response to a Fraud Alert**

On August 21, 2019, LSC Management issued a program letter providing guidance on compliance issues. The letter described the most common compliance issues observed by LSC's Office of Compliance and Enforcement in the past twelve months and offered advice on how to avoid or address such issues.

The program letter included a section on Local Travel Expenditures based on an OIG Fraud Alert, dated March 7, 2019. The Program Letter advised grantees to create or enhance their local travel policies by following the OIG's recommended best practices.

### **Hotline**

The OIG maintains a Hotline for reporting illegal or improper activities involving LSC or its grantees. Information may be provided by telephone, fax, email, or regular mail. Upon request, a provider's identity will be kept confidential. Reports may also be made anonymously.

During this reporting period, the OIG received 59 Hotline contacts. Of these matters, 19 were referred to LSC management for follow-up, 10 were opened as investigations, and the remaining 30 were closed.

## Statistical Summary

### Investigative Cases

Open at the beginning of period .....	22
Opened during period .....	25
Closed during period .....	29
Open at the end of period .....	18
Investigative reports issued.....	31

### Prosecutorial Activities

Referrals pending at the beginning of the period .....	1
Indictments, informations, criminal complaints.....	3
Sentencing .....	1
Referrals pending at the end of the period .....	1

### Personnel Actions

Separation from employment .....	1
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### Investigative Activities

Inspector General subpoenas issued.....	6
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### Monetary Results

Restitution .....	\$20,551
Fines .....	\$1,000
Recoveries .....	\$1,678
TOTAL .....	\$23,229
Questioned Costs Referred to LSC Management.....	\$10,727

### Metrics

Data reflected in the statistical summary were compiled based on direct counts.

## **OTHER OIG ACTIVITIES**

### **Legislative, Regulatory, and Policy Reviews**

Pursuant to our statutory responsibilities, the OIG reviews and, where appropriate, comments on statutory and regulatory provisions affecting LSC and/or the OIG, as well as LSC interpretive guidance and internal policies and procedures.

### **Freedom of Information Act**

The OIG is committed to complying fully with the requirements of the Freedom of Information Act (FOIA). During this reporting period the OIG received three FOIA requests; we responded to all within the requisite timeframes.

### **Professional Activities and Assistance**

The OIG participates in and otherwise supports various activities and efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), as well other inter-agency and professional groups. The IG serves as a member of the CIGIE Audit Committee, which focuses on government auditing standards and cross-cutting audit issues.

Senior OIG officials are active participants in IG community peer groups in the areas of audits, investigations, inspections and evaluations, public affairs, new media, and legal counsel. The groups provide forums for collaboration and are responsible for such initiatives as developing and issuing professional standards, establishing protocols for and coordinating peer reviews, providing training programs, and promulgating best practices. The OIG also routinely responds to requests for information or assistance from other IG offices.

## **APPENDIX – PEER REVIEWS**

The following information is provided pursuant to the requirements of section 5(a) of the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3 §5(a)(14)(B):

The last peer review of the OIG was conducted by the Office of the Special Inspector General for Afghanistan Reconstruction. Its report was issued on August 14, 2017. We received a rating of “pass.”

**TABLE I**  
**Audit Reports, Other Reports, and Quality Control Reviews**

**Part A**  
**Audit Reports**

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	<u>Funds Put to Better Use</u>	<u>Unsupported Costs</u>
LSC 2018 Fiscal Year Audit of the Corporation	5/23/2019	\$0	\$0	\$0
East River Legal Services	8/19/2019	\$11,818	\$0	\$0
Legal Aid of East Tennessee	9/30/2019	\$8,075	\$0	\$0

**Part B**  
**Other Reports**

— NONE FOR THIS PERIOD —



**TABLE I**

**Part C**

**Quality Control Reviews**

	<u>IPA</u>	<u>Recipient</u>	<u>Date Issued</u>
1	Alexander, Aronson, Finning	South Coastal Counties Legal Services	4/23/2019
2	Cusack & Company, CPAs LLC	Legal Aid Society of Northeastern New York, Inc.	5/03/2019
3	Gibson LeClair LLC	Pine Tree Legal Assistance, Inc.	5/17/2019
4	SB & Company, LLC.	Maryland Legal Aid	5/31/2019
5	Moore Grider & Company	Central California Legal Services	5/31/2019
6	Millington Zwygart CPAs, PLLC	Idaho Legal Aid Services, Inc.	7/13/2019
7	David L. Gruber and Associates	Legal Aid Society of Orange County, Inc.	7/13/2019
8	Esterbrooks Scott Signorelli Peterson Smithson, Ltd.	Legal Aid Service of Northeastern Minnesota	7/15/2019
9	Roberts, McKenzie, Mangan & Cummings	Legal Aid of Western Missouri	7/15/2019
10	Bert Smith & Co.	Legal Services of the Virgin Islands, Inc.	7/17/2019
11	Crowe Horwath LLP	Indiana Legal Services, Inc.	7/29/2019
12	Schneider Downs & Co., Inc.	Ohio State Legal Services	7/29/2019
13	Herman & Cormany, CPAs, A.C.	Legal Aid of West Virginia, Inc.	8/07/2019
14	Yeo & Yeo, P.C.	Lakeshore Legal Aid	8/12/2019
15	Frank Barcalow CPA, PLLC	Central Virginia Legal Aid Society, Inc.	9/23/2019
16	Kebede Adnew, CPA	Essex-Newark Legal Services Project, Inc.	9/23/2019
17	Frank Barcalow CPA, PLLC	Neighborhood Legal Services Program of the District of Columbia	9/23/2019

## TABLE II

### Audit Reports Issued with Questioned Costs

	<u>Number of Reports</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period.	1	\$1,067	\$0
B. Reports issued during the reporting period	2	\$19,893	\$0
Subtotals (A + B)	3	\$20,960	\$0
C. For which a management decision was made during the reporting period:	1	\$1,067	\$0
(i) dollar value of recommendations that were agreed to by management	1	\$373	\$0
(ii) dollar value of recommendations that were not agreed to by management	1	\$694	\$0
D. For which no management decision had been made by the end of the reporting period	2	\$19,893	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

### TABLE III

#### Audit Reports Issued with Funds to Be Put to Better Use

	<u>Number of Reports</u>	<u>Dollar Value</u>
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
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
For which no management decision had been made within six months of issuance	0	\$0

## TABLE IV

### (A) Audit Reports Issued Before this Reporting Period for Which No Management Decision Was Made by the End of the Reporting Period

— NONE FOR THIS PERIOD —

## TABLE IV

### (B) Audit Reports Issued Before this Reporting Period with Unimplemented Recommendations as of the End of the Reporting Period

<u>Report Title</u>	<u>Date Issued</u>	<u>Findings Summary<sup>1</sup></u>	<u>Comments</u>
<b>Statewide Legal Services of Connecticut</b>	3/26/18	A, D, F, G, J, K, L	Corrective action in process. Grantee management has requested additional time to respond to OIG recommendations.
<b>Inland Counties Legal Services, Inc.</b>	12/06/18	A, H, K	Corrective action in process. Grantee management has requested additional time to respond to OIG recommendations.
<b>North Penn Legal Services</b>	3/27/19	C	Corrective action in process.

**Legend:**

A = Written Policies & Procedures	B = Disbursements	C = Contracting	D = Fixed Assets	E = Derivative Income
F = Credit Cards	G = Cost Allocation	H = General Ledger & Financial Controls	I = Client Trust Funds	J = Segregation of Duties
K = Internal Reporting & Budgeting	L = Accounting System Access	M = Vehicles	N = Job Descriptions	O = Employee Benefits
P = Payroll	Q = Internal Controls	R = Administration & Oversight Activities		

<sup>1</sup>There are no quantified potential cost savings associated with these open recommendations.

## TABLE V

### Index to Reporting Requirements of the Inspector General Act

<u>IG Act Reference*</u>	<u>Reporting Requirement</u>	<u>Page</u>
Section 4(a)(2)	Review of and recommendations regarding legislation and regulations.	None
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	3-13, 19-20
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-13
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	31
Section 5(a)(4)	Matters referred to prosecutive authorities.	19-20, 24
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.	27
Section 5(a)(7)	Summary of each particularly significant report.	3-13
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs.	29
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	30
Section 5(a)(10)(A)	Summary of each audit issued before this period for which no management decision was made by the end of the period.	None
Section 5(a)(10)(B)	Audit reports with no establishment comment within 60 days.	None
Section 5(a)(10)(C)	Audit reports issued before this period with unimplemented recommendations as of the end of the period.	31
Section 5(a)(11)	Significant revised management decisions.	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	None
Section 5(a)(14)-(16)	Peer reviews.	26

Section 5(a)(17)-(18)	Statistical tables on investigations.	24
Section 5(a)(19)	Investigations involving senior employees where allegations of misconduct are substantiated.	None
Section 5(a)(20)	Instances of whistleblower retaliation.	None
Section 5(a)(21)	Attempts by the establishment to interfere with OIG independence.	None
Section 5(a)(22)	Specified matters closed and not disclosed to the public.	None

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



On October 1, 2017, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) announced the official launch of [Oversight.gov](https://www.oversight.gov). This new website provides a “one stop shop” to follow the ongoing oversight work of all Inspectors General that publicly post reports.

Like the other OIGs, at the Legal Services Corporation we will continue to post our reports to our own website, [www.oig.lsc.gov](http://www.oig.lsc.gov), but with the launch of Oversight.gov, users can now sort, search, and filter the site’s database of public reports from all of CIGIE’s member OIGs, including the LSC OIG, to find reports of interest. In addition, the site features a user-friendly map to find reports based on geographic location, as well as contact information for each OIG’s hotline. Users can receive notifications when new reports are added to the site by following CIGIE’s new Twitter account, [@OversightGov](https://twitter.com/OversightGov).



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## OFFICE OF INSPECTOR GENERAL HOTLINE

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**ABUSE** BY LSC EMPLOYEES OR GRANTEEES

**VIOLATIONS** OF LAWS OR LSC REGULATIONS

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**FAX** 202-337-7155

**E-MAIL** [HOTLINE@OIG.LSC.GOV](mailto:HOTLINE@OIG.LSC.GOV)

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