

# LEGAL SERVICES CORPORATION



## Office of Inspector General

Semiannual Report to the Congress  
October 1, 2019 – March 31, 2020

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

LEGAL SERVICES CORPORATION

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**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 October 1, 2019, through March 31, 2020.

During this reporting period our audit office issued seven reports. We issued three audit reports focusing 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.

We also issued three reports as part of our continuing program of conducting vulnerability assessments of grantees' computer systems. Our assessments test for both internal and external weaknesses in grantees' networks. We issued an additional special report, sent to all grantees, analyzing the findings and recommendations of computer security assessments conducted throughout 2018-2019. We believe this overall effort has been of significant benefit, helping grantees to identify and correct issues that could compromise the integrity of their information systems.

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

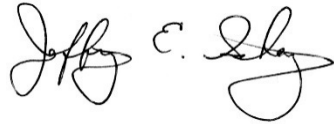
Our investigations office opened 17 new cases and closed 15 cases during the reporting period. The investigations involved a variety of criminal and regulatory matters, including fraud, false claims, the diversion of clients for personal gain, and other potential violations of LSC statutes and regulations. Criminal charges were filed against three defendants in cases arising from OIG investigations.

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, and issued two "Fraud Corner" articles. Our investigations also led to LSC's recovery of misspent grant funds.

On a personal note, I would like to acknowledge the extraordinary dedication and service provided by Jim Sandman, who stepped down as LSC president earlier this year. I am very pleased to welcome Ronald Flagg into his new role as LSC's president, and look forward to continuing to work with him for the benefit of LSC, its grantees, and its client community. I would be remiss if I did not also recognize the exceptional work being done by OIG and LSC staff in carrying out their responsibilities under the challenging conditions of the COVID-19 pandemic.

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 fluid and cursive, with a large, stylized initial "J" and a long, sweeping underline.

Jeffrey E. Schanz  
Inspector General  
April 30, 2020

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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 and its grantee 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 2020 appropriation (exclusive of OIG operations) was \$434.7 million. LSC received an additional \$50 million through supplemental CARES Act 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 seven reports: three audit reports with respect to grantee operations, three reports as part of our vulnerability assessments of grantees' IT network, and a special report on common grantee computer security vulnerabilities, including recommended best practices for addressing them. At the conclusion of the period, we had five projects underway.

The OIG has responsibility for overseeing the audits performed annually at each grantee by independent public accountants (IPAs). During the reporting period, we reviewed 23 IPA reports, with fiscal year ending dates ranging from December 31, 2018, through September 30, 2019. Of the 23 audits, two were of sub-recipients of LSC funds.

We issued seven 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.

### **Neighborhood Legal Services of Los Angeles County**

The OIG assessed the adequacy of selected internal controls in place at Neighborhood Legal Services of Los Angeles County (NLSLA). The onsite work was conducted at the grantee's administrative office in Glendale, California. 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:

- NLSLA allocated all indirect expenses to LSC at the beginning of each month. A portion of the indirect costs was subsequently re-allocated to non-LSC grants at the end of each month; however, the percentage of indirect costs remaining allocated to LSC was more than LSC's equitable share.
- NLSLA paid \$167,160 to an information technology services provider who provided administrative services benefiting the entire organization; however, the fees were fully allocated to LSC. Using LSC's funding percentage of 24 percent, the grantee should have allocated only \$40,118 of these administrative services costs to LSC. The OIG questioned an amount totaling \$127,042.
- NLSLA's supervisors did not approve timesheets in accordance with NLSLA's policies and procedures. For four pay periods in 2019, an average of approximately 27 percent of timesheets were not approved.



- NLSLA's executive director's timesheets were not reviewed by the board of directors.
- Of the 13 contracts reviewed by the OIG, we found the following:
  - Two vendors, with payments totaling \$143,935, did not have contracts on file.
  - NLSLA paid a total of \$102,435 to a consultant for services performed after the contract period of performance ended on December 31, 2017.
  - For one vendor, the grantee did not follow its contracting policies and procedures, which required it to establish a contract prior to receiving services.
  - Five vendors, with payments totaling \$181,602, performed services and/or billed for hours outside the scope of the contracts.
  - Four contracts, with payments totaling \$514,400, were sole-sourced without a sole-source justification having been done at the time the purchasing decision was made.
  - Three contracts, with payments totaling \$181,101, did not have a documented period of performance and were not periodically recompeted. These included an IT contractor and two janitorial contracts.
  - Three contracts, with payments totaling \$383,660, were long-term contracts that had never been recompeted.
  - Five contracts, with payments totaling \$479,567, did not include required contract elements, including approvals and due date for deliverables.
- NLSLA's written policies regarding fixed assets were inadequate, as they did not stipulate that the date acquired, check number, identification number, and depreciation method needed to be recorded.
- The OIG found no property tags on the fixed asset items at the grantee's headquarters.
- NLSLA's property records did not include tag numbers for fixed assets, list specific identifying information for the items, or identify the assets' physical locations.

Additionally, in several instances, multiple fixed assets were accounted for as one item in the property records, which made it difficult to locate individual assets.

- The OIG reviewed 176 cash disbursements totaling \$369,451 and found that four disbursements totaling \$6,344 were for unallowable uses, including floral arrangements, non-business-related travel, party supplies, and event planning. The amount allocable to LSC funds was \$2,443.
- NLSLA did not establish written policies and procedures governing the use of store credit cards.
- The OIG found a lack of segregation of duties over electronic bank deposits and cash receipts, as follows:
  - The individual responsible for preparing bank deposit slips also made electronic check deposits.
  - NLSLA maintained electronic receipt logs which were accessible to the entire NLSLA fiscal staff, including the individual responsible for depositing cash receipts.
  - Four out of 10 employees reviewed did not obtain requisite written approval to use compensatory time.

The OIG made 22 recommendations:

- Two recommendations related to cost allocation, addressing the need to ensure that:
  - an indirect cost allocation methodology is implemented that complies with LSC requirements and allocates indirect costs to grant awards equitably; and
  - costs are allocated to LSC in a manner reasonably proportionate to the benefits received.
- Two recommendations related to payroll, addressing the need:
  - to implement a training program that emphasizes the importance of approving timesheets and of NLSLA's policies and procedures; and
  - to ensure that the Executive Director's time worked and paid time off are adequately recorded and reviewed by the Board of Directors in accordance with NLSLA policy.

- Eight recommendations related to contracting, addressing the need to ensure that:
  - valid and current contracts are written, signed, and maintained for all business arrangements;
  - contracts fully document the agreed-upon cost, payment, and other terms;
  - contractors are paid according to the terms and descriptions of expected work to be provided, as documented within the contract;
  - any changes to contracted terms are approved by both parties and documented;
  - all competition actions and sole-source decisions are documented and maintained with the contract files, as outlined in the grantee's policies and procedures;
  - sole-source justifications are made before the initiation of contracts;
  - automatic renewals of contracts are eliminated, and long-standing contracts are rebid every three to five years; and
  - each contract contains adequate approvals from both parties and a clear date by which deliverables are due.
  
- Four recommendations related to fixed assets, addressing the need to ensure that:
  - updated policies and procedures for fixed assets, including property records and sensitive assets, are implemented and included in NLSLA's Accounting Policies & Procedures;
  - written policies are followed, and all capitalized physical assets are tagged;
  - property records include information to allow NLSLA to easily track assets; and
  - fixed assets are listed individually in the property records.
  
- One recommendation related to disbursements, addressing the need to ensure that unallowable costs are not allocated to LSC.
  
- Two recommendations related to store credit cards, addressing the need to ensure that:

- policies and procedures are developed and implemented to govern the use of store purchase cards and/or credit cards; and
- unallowable costs are not allocated to LSC.
- Two recommendations related to general ledger and financial controls, addressing the need to ensure that:
  - individuals responsible for making cash deposits do not have the ability to edit and delete data from the cash receipts log; and
  - segregation of duties is implemented within NLSLA's cash receipt processes.
- One recommendation related to employee benefits, addressing the need to provide training to NLSLA management and employees on compensatory time policies and procedures.

The grantee agreed with 21 recommendations, and partially agreed with one. NLSLA completed corrective actions for 12 recommendations; the OIG considers these 12 recommendations closed.

The grantee's proposed actions for nine recommendations were responsive; these recommendations will remain open pending receipt of additional information and documentation.

The grantee's proposed action for one recommendation, related to the allocation of unallowable costs, was partially responsive. The OIG referred this recommendation and questioned costs, totaling \$129,485, to LSC management for review and action.

### **Central Virginia Legal Aid Society**

The OIG assessed the adequacy of selected internal controls in place at Central Virginia Legal Aid Society (CVLAS). The onsite work was conducted at the grantee's administrative office in Richmond, Virginia. While some of the written policies and procedures were adequately designed, we found that controls in the areas detailed below needed to be strengthened. We also noted that some findings were repeats of issues identified in our previous audit of CVLAS' internal controls (Report No. AU 13-07), dated September 2013.

We were unable to obtain sufficient documentation in the areas of cost allocation and derivative income to assess CVLAS' compliance with LSC regulations, which resulted in

a scope limitation pertaining to these two sections of the audit. The scope limitation<sup>1</sup> as to cost allocation also resulted in an impairment to other sections of our audit, such as disbursements and credit cards.

We identified the following as areas that needed improvement:

- Allocations for indirect costs were not traceable in the accounting system. At year end, the grantee's Independent Public Accountant (IPA) performed allocations for indirect costs; however, the allocations were not recorded in the accounting system.
- CVLAS' cost allocation practice deviated from its written policies as follows:
  - The formula used in their internal allocation spreadsheet indicated that, in practice, all unallocated costs at year-end were (inappropriately) charged to LSC. A lack of adequate documentation prevented us from determining how actual allocations were made.
  - Fifteen out of twenty-three employees did not record hours worked in the timekeeping system.
  - CVLAS management does not meet monthly to review allocations.
- CVLAS received \$15,270 in rental income during the audit period, January 1, 2017 to March 26, 2018. This income was not allocated at all as of March 28, 2018. Therefore, we were unable to determine how rental income was allocated. In addition, rental rates were not included in the rental agreement.
- CVLAS did not allocate attorneys' fees in proportion to the allocation of staff hours devoted to each case. We tested \$16,000 of \$17,753 in attorneys' fees received by CVLAS during the scope of the audit. These fees were not allocated by funding source within the case management system.
- CVLAS had several internal control weaknesses within payroll including:
  - Inaccurate data entry of employees' hours. CVLAS made errors entering manual timesheet data into their online payroll system, resulting in discrepancies between the hours recorded in employees' timesheets and the payroll register. (CVLAS outsources its payroll functions.)

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<sup>1</sup> A scope limitation is a restriction, such as lack of sufficient documentation, which inhibits an auditor's ability to accomplish an audit objective..

- There were multiple instances of missing timesheets and approvals. CVLAS records revealed that 11 timesheets with a combined total of 857 hours were not on file, and seven timesheets with a combined total of 520 hours, equivalent to \$16,208, were not properly approved with a supervisor's signature.
- There was inadequate approval, awarding, and tracking of timesheets and compensatory time. CVLAS did not follow its own policy over compensatory time. CVLAS' payroll register did not include time accrued, time taken, and available balances for compensatory time.
- CVLAS did not adequately maintain credit card receipts and supporting documentation. Also, due to the scope limitation in cost allocation, we were unable to obtain sufficient accounting system documentation to determine whether the credit card transactions reviewed were allocated to LSC and in accordance with LSC regulations. Of the 90 credit card transactions totaling \$12,002 reviewed by the OIG, we found that:
  - Forty-seven transactions totaling \$7,279 did not have supporting documentation such as receipts or invoices.
  - Two transactions totaling \$155 were LSC-unallowable transactions.
  - Two additional credit card transactions totaling \$121 were both LSC-unallowable and did not include supporting documentation such as receipts or invoices.
- Of 90 CVLAS' credit card transactions reviewed, 10 had no documented approvals.
- CVLAS' credit cards were being used by employees who were not authorized credit card users.
- CVLAS did not require cardholders to sign a user agreement form for use of company credit cards.
- Due to the scope limitation in cost allocation we were unable to obtain sufficient accounting system documentation to determine whether the disbursements reviewed were allocated to LSC and in accordance with LSC regulations. The OIG reviewed 90 disbursements totaling \$266,994 and found that:
  - Four disbursements totaling \$10,297 were not properly approved by CVLAS management.

- Five disbursements totaling \$2,368 were inadequately supported.
- Two former CVLAS employees retained access rights in the accounting system. These users held the same usage rights as the grantee's fiscal administrator.
- CVLAS employees shared accounting system access.
- CVLAS' bank reconciliations were untimely. Of the 36 bank reconciliations reviewed, 21 were not performed in a timely manner.
- CVLAS' lacked approvals on petty cash reconciliation forms.
- The OIG reviewed eight contracts totaling \$91,539 and found that:
  - CVLAS had unsupported and missing contracts:
    - CVLAS could not locate three contracts totaling \$41,879 relating to payroll processing, IT, and janitorial services.
    - CVLAS could not find invoices for 11 payments made for the janitorial service in 2017.
  - CVLAS did not have adequate contract documentation. Some contracts lacked required approvals; others were outdated.
  - CVLAS' contract for their independent public accountant (IPA) was neither properly approved nor signed by the executive director or appropriate management.
  - There was no justification on file for two sole-sourced contracts. These contracts were for the IPA and the facility security system service.
  - CVLAS' case management system service was competitively bid; however, the selection process was not documented. There was no documentation of competitive bidding for services contracts for payroll, IT, and the telephone system, and for two of the janitorial services contracts.
- CVLAS had inadequate practices over fixed assets:
  - CVLAS did not record all the elements of the property record required by the LSC Accounting Guide.
  - CVLAS property record was not updated to reflect new or disposed items, and assets were not always tagged. Consequently, physical inventory could not be reconciled to the accounting records. (This is a repeat finding.)

In our previous audit of CVLAS' internal controls, we noted that inventory results were not being reconciled to the accounting records.)

- CVLAS had inadequate approval and documentation over salary advances. We reviewed six salary advances totaling \$9,190 and noted the following:
  - Two salary advances requested by the executive director had no documented approval from the board of directors.
  - Six salary advance requests had no signed acknowledgement agreement documenting that the employee agreed with the grantee's repayment terms and conditions.
- CVLAS had inadequate documentation and approval over internal reporting and budgeting:
  - The CVLAS Board of Directors' Audit and Finance Committee did not maintain minutes of its meetings, nor did it review the financial reports separately from the board.
  - CVLAS did not prepare budget projections based on funding source or class.
- CVLAS had the following inadequate written policies and procedures:
  - The cost allocation policy did not describe the allocation methodology for LSC-unallowable costs.
  - The credit card policy lacked details regarding prohibited cash advances and ATM withdrawals, as well as for removing authorization when credit card users were terminated or transferred.
  - The contracting policy did not include detailed procedures for various types of contracts, for dollar thresholds, and for competition requirements.
  - The fixed assets policy had not been updated to reflect the recent implementation of 45 CFR Part 1631.
  - The payroll policy failed to require supervisory review and approval for time and attendance prior to payroll processing.

The OIG made 36 recommendations:

- Four recommendations related to cost allocation and addressed the need to ensure that:



- the accounting system provides an audit trail to present an accurate and traceable allocation report and transaction record for each funding source;
  - CVLAS staff complies with written policies and procedures for cost allocation. Any deviation from the written cost allocation formula should be documented on file;
  - cost allocations are reviewed for the previous month, expenditures are monitored, and adjustments are made for funding sources. Cost allocations should be performed more than once per year; and
  - the cost allocation process is performed frequently enough to provide meaningful financial information to grantee management, the board of directors, and funders.
- Two recommendations related to derivative income and addressed the need to ensure that:
    - allocations are performed for rental income pursuant to 45 CFR §1630.17, in accordance with the written procedures in the CVLAS Accounting Manual, and that any deviation is documented on file; and
    - the corresponding funding source is assigned within the case management system, and that the requirements of 45 CFR §1609.4(b) are fully implemented.
- Nine recommendations related to payroll and addressed the need:
    - to ensure that an accurate and complete attendance record is maintained for each employee and for each pay period;
    - to conduct a detailed review, to be completed within six months, of all payroll processed in 2018 and 2019 to identify payroll over- and under-payments;
    - to the extent consistent with the law, to reimburse employees that were identified as underpaid and attempt to recover payment from all employees that were identified as overpaid in the above review;
    - to provide appropriate training to employees assigned with payroll duties to ensure that payroll is accurately documented, recorded, processed, and reported;
    - to ensure that timesheets and other attendance records for all employees are approved by the employee's supervisor and documented on file;

- to ensure that advance approvals for compensatory time are adequately documented to reflect that the request was made prior to an employee performing overtime duties;
- to ensure that compensatory time is only awarded to employees who work more than 45 hours in a given week per the CVLAS Personnel Manual;
- to establish a formal tracking system to record employees' compensatory time earned, used, and remaining balances; and
- to ensure that compensatory time is accurately recorded in the payroll system, in the corresponding payroll register, and subsequently reported on the employee's pay stub.
- Five recommendations related to credit cards and addressed the need to ensure that:
  - LSC-unallowable costs are charged to funding sources other than LSC and reflected within the financial software to provide an audit trail;
  - supporting documentation, including receipts and invoices, are maintained for each transaction to fully support all credit card purchases;
  - the purchase approval process is followed, appropriate approvals are obtained for each requisite transaction, and the approvals are documented and maintained on file;
  - credit cards are not being shared and only those individuals specifically named as authorized credit card users in the CVLAS Accounting Manual have access to a CVLAS credit card; and
  - CVLAS obtain from each authorized credit card user a signed user acknowledgement agreement that includes repayment terms and conditions governing use/misuse of the card.
- Two recommendations related to disbursements and addressed the need to ensure that:
  - review and approval processes are adequately documented with signature and date prior to disbursements; and
  - disbursements are not made without adequate documentation and internal verification of receipt of goods and accuracy of invoices.
- Five recommendations related to general ledger and financial controls to ensure that:

- access to the CVLAS accounting system is restricted to users with current authorizations, and that authorization is to be removed immediately upon a user's termination or transfer;
- anyone accessing the accounting system has a unique username and password, and users' privileges are limited to only those functions pertinent to their duties;
- authorized individuals perform bank reconciliations monthly, no later than 15 working days after receipt of the statement, in accordance with the CVLAS accounting manual;
- bank reconciliations are reviewed and approved by a responsible individual, with signature and date documented by the preparer and approver; and
- petty cash reconciliations are approved by the fiscal administrator, with signature and date documented on the reconciliation form.
- One recommendation addressed the need to ensure that CVLAS complies with the requirements of the LSC Accounting Guide 3-5.16, and that contracts and invoices are received, documented, approved and verified prior to payment.
- Two recommendations related to fixed assets and addressed the need to ensure that:
  - property records contain all elements required by the LSC Accounting Guide 3-5.4(c), and all employees involved in performing inventories and maintaining property records are knowledgeable of the relevant policies; and
  - all applicable fixed assets with a cost or value of \$200 or over are tagged, inventoried, and added to the fixed asset records, in accordance with CVLAS policy.
- Two recommendations related to employee benefits and addressed the need to ensure that:
  - a board member is involved in the review and approval process of the executive director's salary advance requests, with appropriate documentation maintained on file; and
  - staff understand the agreed upon terms and conditions of a specific salary advance, and that such agreements are documented.
- Two recommendations related to internal reporting and budgeting and addressed the need to ensure that:

- the Audit and Finance Committee records financial decisions and approvals made by the governing body in accordance with the LSC Accounting Guide, Section 3-5.2(b); and
- budgets are built from cost centers or funding sources each year to identify details necessary for proper analysis and control of program spending.
- Two recommendations related to written policies and procedures and addressed the need to:
  - ensure that written policies and procedures for cost allocation, credit cards, contracting, fixed assets, and payroll are included in the grantee's Accounting Manual, adequately describe the processes and controls in sufficient detail, and are in accordance with LSC's Accounting Guide, regulations and guidelines; and
  - revise the policies in the CVLAS Accounting Manual to reflect new requirements included in 45 CFR §1630 and §1631, effective December 31, 2017.

Out of 36 recommendations, CVLAS management agreed with 29, disagreed with six, and indicated that they did not have enough time to address one recommendation.

The OIG considered CVLAS' comments and proposed actions with respect to 27 recommendations as responsive. These recommendations will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation is provided.

The OIG considered CVLAS' comments regarding two recommendations as partially responsive and referred these recommendations to LSC management for resolution.

The OIG considered CVLAS' comments to three recommendations as unresponsive and referred them to LSC management, along with questioned costs, for resolution.

The OIG acknowledges that CVLAS requires additional time to respond to the recommendation regarding budget preparation. This recommendation will remain open until CVLAS provides a copy of the most recently prepared budget reflecting that the budget was built from cost centers or funding sources.

Although the grantee management's proposed actions were partially responsive to the recommendations related to credit cards, the OIG questioned a total \$7,555 in credit card transactions. As noted above, the amount was referred to LSC management for resolution.

Additionally, since the payroll overpayment and underpayment discrepancies may extend beyond the samples reviewed, the OIG referred this issue and related recommendations to LSC management for further review and action.

### **Legal Services of the Hudson Valley**

The OIG assessed the adequacy of selected internal controls in place at Legal Services of the Hudson Valley (LSHV). The OIG conducted onsite work at the grantee's administrative office, located in White Plains, New York. 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:

- LSHV did not maintain supporting documentation for estimates of personal and business usage on the organization's vehicles.
- LSHV did not adequately maintain contract records: some contracts were completely missing; available contracts were incomplete, including missing signatures, start dates, work to be performed, competitive bids, sole-source justifications, and approvals.
- LSHV's contracting policies and procedures were inadequate, lacking key elements of the Fundamental Criteria of the LSC Accounting Guide, including requirements for: contracting procedures for various types of contracts, the documentation to be maintained for contracts, maintenance of contracts in a central location, approval levels for contracts, and specification of who is authorized to execute a contract.
- Of the 154 disbursements reviewed by the OIG totaling \$1,366,383, we found that:
  - Eight disbursements totaling \$6,275 lacked adequate supporting documentation.
  - Six disbursements totaling \$13,539 lacked documented signatures of approval.
  - Seven disbursements totaling \$99,748 were not traceable to the grantee's general ledger.
- LSHV lacked segregation of duties over accounts payable, the general ledger, and the safeguarding of check stock.
- LSHV written policies and procedures lacked details regarding activation and deactivation of credit cards, handling impermissible charges, incurring late

fees/finance charges, credit card user agreement forms, and cash advances/ATM withdrawals.

- LSHV had 11 transactions in the amount of \$500 or more, totaling \$18,571, which did not receive pre-approval as required by the written policies in the grantee's accounting manual.
- LSHV provided a Home Depot credit card to a maintenance contractor, who is a non-LSHV employee. There was no process in place to obtain or document authorization for the maintenance contractor's transactions using the card. The purchases were not pre-approved by grantee management and the grantee did not require the maintenance contractor to provide justification for the purchases.
- LSHV had inadequate controls over the use, approval, and maintenance of supporting documentation for its credit cards, with deficiencies including:
  - insufficient information on an expense report to support a \$2,750 transaction's purpose; and
  - transactions made without appropriate approval or by unauthorized users.
- LSHV did not have written policies on their current practices for tracking and disposal of electronic devices containing sensitive information.
- LSHV's fixed asset and inventory listing was not up-to-date nor was it populated with all information required by the Fundamental Criteria provisions of the LSC Accounting Guide. It also contained duplicate tag numbers identifying different assets and inventory items.
- Issues were identified with eight of the 42 inventory items selected for verification:
  - The OIG physically observed two inventory items that were not included in the Fixed Asset and Inventory listing.
  - The locations listed for five items on the inventory were inaccurate.
  - The grantee could not verify the existence of a laptop included on the list.
- LSHV did not maintain proper documentation to be able to test and follow the cost allocation formula. LSHV was not able to provide historical formulas and workbooks for the five indirect costs.
- LSHV written policies and procedures for cost allocation did not fully detail or correspond with the process that was actually practiced.

- LSHV did not always prepare monthly management reports and approvals were not documented.
- LSHV's accounting system did not have adequate restrictions and limitations on access rights.
- LSHV lacked segregation of duties over the maintenance of the master vendor list. The accounting manager, who oversees the accounts payable function, which includes initiating and processing payments, also has full access rights to the master vendor list.
- Although LSHV did have adequate internal controls related to the Student Loan Repayment Assistance Program, those procedures were not documented in the LSHV accounting manual.
- LSHV's policies and procedures over cell phone reimbursement needed to be strengthened and documented in both its accounting manual and its employee handbook.

The OIG made 26 recommendations:

- Two recommendations related to the use of the grantee's vehicles and addressed the need to ensure that:
  - adequate records are maintained to document the mileage used on the company vehicles for both business and personal use; and
  - the personal portion of the vehicles' use is accounted for as a fringe benefit in accordance with IRS regulations.
- Five recommendations related to contracting and addressed the need to ensure that:
  - contracts are written, signed, and maintained for all business arrangements; fully document an adequate statement of work and agreed-upon terms; and are reviewed periodically to ensure that written terms are defined and current;
  - the process for each contract action is fully documented in writing, including sole-source justification or documentation of competition;
  - a centralized filing system for all contracts is maintained 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, approvals, and any agreed-upon modifications to a contract or agreement;

- vendors are paid according to the terms and descriptions of expected work to be provided and documented within the contract; and
- updates to the LSHV accounting manual include policies and procedures relating to various types of contracts, documentation that should be maintained for contracts, and the requirement that contracts be centrally filed, and should define the required approval level for contracts, including the requirement for LSC approval when \$25,000 or more of LSC funds are used.
- Five recommendations related to disbursements and addressed the need to ensure that:
  - adequate supporting documentation is attached to all disbursements before funds are disbursed;
  - approvals are documented by an authorized individual before disbursements are paid;
  - proper, adequately referenced entries for disbursements are made to the general ledger, and that the source and detail documentation for disbursements can be easily traced to the general ledger;
  - the funding codes to which disbursements are allocated are coded in the accounting system and are included along with supporting documentation; and
  - adequate segregation of duties over payment and posting to the general ledger is practiced, and access to check stock is appropriately controlled.
- Four recommendations related to credit cards and addressed the need to ensure that:
  - the grantee's accounting manual is updated to include policies regarding activation and deactivation of credit cards, handling of impermissible charges, incurring late fees/finance charges, credit card user agreement forms, and cash advances/ATM withdrawals;
  - employees adhere to written policies regarding prior approval of credit card transactions;
  - the grantee's credit cards are used only by authorized LSHV employees for whom signed cardholder agreements are on file, in accordance with written policies and procedures; and



- all expense report forms include adequate support detailing the purpose of transactions and are approved by management.
- Three recommendations related to fixed assets and addressed the need to ensure that:
  - updates to the grantee's accounting manual include policies and procedures regarding the grantee's current practice in tagging and disposing of electronic devices containing sensitive information;
  - updates to the grantee's fixed assets and inventory listing include accurate and complete information required by the Fundamental Criteria and that a physical inventory is conducted and reconciled with the listing; and
  - all IT equipment is disposed of properly and that the grantee maintains disposition data.
- Two recommendations related to cost allocation and addressed the need to ensure that:
  - the grantee maintains cost allocation documentation for the recommended seven years; and
  - the grantee updates its accounting manual to accurately describe the process followed in calculating allocations throughout the year.
- One recommendation related to management reporting and budgeting and addressed the need to ensure that all management reports are prepared timely after month-end.
- Two recommendations related to general ledger and financial controls and addressed the need to ensure that:
  - adequate controls are integrated into the accounting system so that users are granted rights by job function, job responsibility, and only as needed; and
  - segregation of duties is implemented over the master vendor list.
- Two recommendations related to employee benefits and addressed the need to:
  - ensure the Student Loan Repayment Assistance Program policy is included in the grantee's employee handbook and/or accounting manual; and
  - enhance and strengthen the cell phone reimbursement policy.

LSHV agreed with 14 recommendations, partially agreed with nine, and disagreed with three. The grantee completed corrective actions regarding two recommendations and the OIG considers these recommendations closed. The OIG considers the grantee's proposed actions to ten recommendations as partially responsive and to seven recommendations as responsive. These 17 recommendations will remain open pending appropriate action and receipt of supporting documentation.

The OIG considers the responses to seven recommendations as partially responsive; however, the grantee either partially agreed, disagreed, and/or provided a response that suggests that the grantee will likely continue their process as is. These seven recommendations were referred to LSC management for resolution.

### **Vulnerability Assessments of Grantee Computer Networks**

We continued a program, begun in 2016, of conducting vulnerability assessments of grantees' computer networks. Working with a specialized contractor, we performed assessments this period on three grantees' systems. The tests scanned for potential vulnerabilities in the systems' architectures, technologies, and processes, from both outside and within the grantees' networks.

The assessments found that the grantee sites tested did not present a high-level risk of exposure from outside the networks. A limited number of medium- or low-level vulnerabilities were found in the external boundaries of the grantees' networks. The more critical vulnerabilities discovered at the grantee sites were internal to their network environments. These principally resulted from unsupported servers, missing security patches and updates, and outdated software. Complete lists of potential issues were provided to the grantees for review and remediation.

In addition, the OIG transmitted a report to all grantee executive directors providing a summary of findings and resulting recommendations for assessments that took place over a 16-month period covering eight grantee sites. While the size and complexity of each grantee's network was different, the report identified common security issues and provided best practices to mitigate these vulnerabilities. The issues noted were intended to provide insight into common problem areas that may affect LSC grantees and to identify ways to strengthen grantees' network security.

## **Statistical Summary**

### **Audits**

Open at beginning of reporting period .....	4
Opened during the period .....	4
Audit reports issued or closed during reporting period .....	3
Open at end of reporting period .....	5

### **Recommendations to LSC Grantees**

Pending at beginning of reporting period .....	53
Issued during reporting period .....	84
Closed during reporting period .....	53
Pending at end of reporting period .....	84

## **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.

### **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.

### **Quality Control Reviews**

We continued 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 seven QCRs of FY2018 audited financial statements.

The QCRs noted that two of the audited financial statements met standards with no exceptions. Five of the audited financial statements met standards with one or more exceptions, three of which required the IPA to perform additional work and provide documentation to support their conclusions. The additional work and documentation required of these IPAs was not due to the OIG until after the close of this reporting period. For two of the five audited financial statements 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 eight 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.

### **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 23 IPA audits of grantees with fiscal year ending dates from December 31, 2018, through September 30, 2019. Of the 23 audits, two are sub-recipients of LSC funds. These audit reports contained 32 findings. Of the 32 findings, 24 are under OIG review, six were referred to LSC management during the period for follow-up and two were either not significant, or corrective action had already been completed. We referred an additional three findings to LSC management from audits reviewed in the previous reporting period.

**Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2018, through September 30, 2019<sup>1</sup>**

Total Number of Findings Referred .....	9
Number of Findings Accepted for Review by LSC Management.....	9
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.....	2
Financial Transactions and Reporting .....	5
Missing Documentation.....	1
Timekeeping.....	0
Segregation of Duties.....	1
 TOTAL.....	 9

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<sup>1</sup> Three of the findings were from audits reviewed in the previous period, covering grantee financial statement audits with fiscal years ending December 31, 2018, through January 31, 2019.

## **INVESTIGATIONS**

During this period, OIG investigative activity resulted in one information, two criminal charges, one sentencing action, and two restitution orders totaling \$5,962. An OIG investigation resulted in the suspension of a subgrantee's 2019 funding and the cancellation of its 2020 funding, in the total amount of \$430,087. We also made one referral to LSC management for consideration of questioned costs totaling \$6,875 and recovered questioned cost referrals totaling \$17,602.

The OIG opened 17 cases during the period. These included 11 investigative cases, one questioned cost case, two Regulatory Vulnerability Assessments, and three Fraud Vulnerability Assessments. The investigative cases included allegations of grant fraud, theft, contracting fraud, diversion of clients for personal gain, time and attendance fraud, and other potential violations of LSC statutes and regulations.

The OIG closed 15 cases during the reporting period. These included nine investigative cases, three Regulatory Vulnerability Assessments, and three Fraud Vulnerability Assessments. The OIG also issued two fraud prevention advisories during this reporting period.

### **Criminal Proceedings**

#### **Criminal Charges Filed Against Former Grantee Paralegals**

Based on an OIG referral to a district attorney's office, two former grantee paralegals were charged with a total of 69 counts, including grand theft, attempted grand theft, burglary in the first degree, and the unauthorized practice or falsely advertising as being authorized to practice law.

Our investigation found that the former paralegals devised a plan to divert eligible clients and defraud them and the grantee through a mortgage loan modification scheme.

#### **Criminal Information of a Former Grantee Accountant**

As previously reported in our October 2019 Semiannual Report to Congress, an OIG investigation found that a grantee's former internal accountant stole \$497 in cash from the grantee's petty cash box, and another \$1,180 by making a double payroll payment to herself. On July 17, 2019, the former accountant made full restitution to the grantee and was subsequently terminated from employment.

As a result of the OIG's investigation, a referral was made to local prosecuting authorities. On November 5, 2019, a criminal information was filed charging the former grantee accountant with theft.

### **Sentencing of Former Grantee Paralegal**

As a result of an OIG investigation previously reported in our October 2016 Semiannual Report to Congress, a former grantee paralegal was sentenced in federal court. The investigation found that the former paralegal altered payroll receipts she received from the program. The payroll receipts were in the form of program checks that were marked "VOID" by the program. The employee altered the receipts by removing the word "VOID" and changing the amount and date to create fraudulent checks. The investigation found that during a 30-day period the employee cashed five fraudulent payroll checks, totaling \$4,904, in two different states at multiple convenience stores and at a casino. She was indicted on July 26, 2016 on charges of larceny and theft of government property.

The former employee pled guilty to one count of theft of government property; was sentenced to six months in federal prison, followed by two years of supervised release; was ordered to pay \$4,904 in restitution to the grantee; and was fined a \$100 special assessment.

### **Restitution Action**

#### **Amended Restitution Order for Former Director of Information Technology**

As a result of an OIG investigation previously reported in our October 2019 Semiannual Report to Congress, a former director of information technology (IT) was ordered to pay an additional \$1,058 in restitution.

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 was 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 in restitution to the grantee.



On October 15, 2019, the court ordered an amended restitution judgement, based on amounts originally identified during the OIG's investigation, for an additional \$1,058 to be paid to the grantee.

## **Administrative Actions**

### **Debarment of Former Grantee Program Manager**

Based on a joint investigation by the LSC OIG and the U.S. Department of Health and Human Services (HHS) OIG, a former employee of an LSC grantee was debarred by HHS from doing business with the government based on her conviction for theft of program funds.

As a result of an OIG investigation previously reported in our October 2018 Semiannual Report to Congress, a former employee of an LSC grantee pled guilty on September 20, 2018, to a criminal information charging her with two counts of theft from a program receiving federal funds. The former employee was a program manager overseeing grants that utilized the services of volunteers and interns. The investigation found that the program manager submitted \$79,199 in false travel claims for the volunteers and interns and then deposited the reimbursement checks into her personal bank account. The individuals to whom the reimbursement checks were written had no knowledge that the travel claims had been filed in their names or that the reimbursement checks had been cashed and the funds retained by the program manager.

### **Referral of Nepotism at a Grantee Program**

An OIG investigation into nepotism at a grantee program found that six grantee employees were related to the grantee's executive director or to other members of his family. The investigation also disclosed that there were an additional 32 grantee employees with relatives employed at the grantee, including several relatives of executive and management staff.

The investigation also reviewed the amount of compensation received by the executive director's family members, as well as the compensation received by relatives of other families employed by the grantee. The OIG referred the potential issues of nepotism to LSC management for review.

As discussed below, our findings prompted us to post a "Fraud Corner" article highlighting this as a potential problem area. LSC management followed-up with a program letter to all grantees addressing the issue of nepotism.

## **Recovery Actions**

### **Suspension of 2019 and Cancellation of 2020 Funding to a Long-term LSC Subgrant**

An OIG investigation into potentially false case reporting by a subgrantee program receiving LSC funds for the purpose of meeting the private attorney involvement requirements of 45 CFR Part 1614, resulted in an LSC grantee suspending the remaining \$103,687 in 2019 payments to the subgrantee program.

In addition, the LSC grantee cancelled \$326,400 in 2020 LSC subgrant funds. The LSC grantee cancelled the 2020 subgrant funding by withdrawing its pending subgrant request to LSC. The organization had been an LSC subgrantee since the 1980s. In total, \$430,087 in subgrant payments were suspended and cancelled as a result of the OIG investigation. The OIG investigation is ongoing.

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

As a result of an OIG investigation, previously reported in our October 2019 Semiannual Report to Congress, the OIG identified two additional years of potential unallowable costs totaling \$6,875 related to monthly travel stipends received by a grantee's former executive director.

In our prior referral of questioned costs, the OIG reported our findings that from 2016 through 2018 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. In addition, 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.

The OIG investigated an additional two years, 2014 and 2015, and found that the former executive director had been receiving the \$400 monthly travel stipends then as well, that these amounts were not offset against his actual travel expenses, and that they therefore constituted additional duplicate payments. Accordingly, we referred an additional total of \$6,875 in potential questioned costs to LSC management.

The grantee program did not contest the questioned costs and on March 18, 2020, it agreed to remit the full amount of the OIG's two questioned cost referrals, totaling \$17,602. The amount will be deducted in equal installments from the grantee's remaining 2020 basic field grant payments.

## **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 issue fraud alerts and provide articles on our online “Fraud Corner” to help increase grantees’ awareness of developing trends that may pose a risk to LSC funds.

### **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 163 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 and LSC headquarters personnel, a presentation at a National Legal Aid and Defender Association annual conference, and nine webinars that reached multiple grantees.

Three FABs were completed at grantees’ locations 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.

Three FVAs were closed during this reporting period.

### **Regulatory Vulnerability Assessments**

We began conducting RVAs based on 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.

Three RVAs were closed during this 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 two articles, 'The Impact of Nepotism,' describing current and past OIG investigations involving nepotism at grantee programs, and 'COVID-19 Fraud,' describing current scams and frauds related to the COVID-19 pandemic.

In the 'The Impact of Nepotism' article, we discussed the problems and potential abuses that can arise as a result of hiring and contract practices that favor friends and relatives of grantee management (e.g., investigation reported at page 28). The article also provided guidance to grantees on the importance of having conflicts of interest policies and practices that address nepotism and require disclosure, recusal, and unbiased decision-making.

In the 'COVID-19 Fraud' article, we discussed how to avoid COVID-19 related scams and who to notify when individuals believe they may have been the victim of a scam. The article also encouraged grantees to proactively share information with clients in order to prevent them from falling prey to scams.

## **Management's Response to Fraud Corner on Nepotism**

On February 18, 2020, LSC management issued Program Letter 20-1, entitled "Nepotism: Avoiding Favoritism in the Workplace," to all LSC grantee executive directors. The program letter highlighted efforts by the OIG to report on the detection and prevention of nepotism at LSC grantees, and reflected LSC management's concern with ensuring that grantees are aware of and take appropriate steps to address nepotism.

In addition, the program letter offered insight into identifying nepotism in the workplace and best practices for combating nepotism. The program letter also offered to provide guidance to grantees in drafting nepotism or conflicts of interest policies.

## **Management's Response to Fraud Alert on the Outside Practice of Law**

On February 18, 2020, LSC management issued an advisory opinion on the responsibilities of LSC grantees in connection with the outside practice of law by their staff attorneys, when permitted under LSC regulations. The opinion concluded that LSC grantees must reasonably monitor and document the permitted outside practice of law by full-time staff attorneys to demonstrate and ensure compliance with 45 CFR Part 1604, Outside Practice of Law.

The advisory opinion also referenced the OIG's fraud alert dated July 31, 2018, as an additional resource for grantees for monitoring permitted outside practice of law by full-time staff attorneys. The fraud alert included recommendations regarding policies and practices for educating staff, documenting approvals, and follow-up monitoring.

## **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 43 Hotline contacts. Of these matters, 13 were referred to LSC management for follow-up, nine were opened as investigations, and the remaining 21 were closed.

## Statistical Summary<sup>1</sup>

### Investigative Cases

Open at the beginning of period .....	18
Opened during period .....	17
Closed during period .....	15
Open at the end of period .....	20
Investigative reports issued.....	22

### Prosecutorial Activities

Referrals pending at the beginning of the period .....	1
Referrals accepted during the period .....	4
Indictments, informations, criminal complaints.....	3
Sentencing .....	1 <sup>2</sup>
Referrals pending at the end of the period .....	0

### Administrative Actions

Debarment .....	1
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### Investigative Activities

Inspector General subpoenas issued.....	16
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### Monetary Results

Suspension of Grant Payments.....	\$103,687
Cancellation of Grant .....	\$326,400
Restitution .....	\$5,962 <sup>1</sup>
Special Assessment.....	\$100 <sup>1</sup>
Questioned Cost Recoveries .....	\$17,602
TOTAL .....	\$453,751

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<sup>1</sup> Data reflected in the statistical summary were compiled based on direct counts.

<sup>2</sup> Denotes event that occurred in the prior reporting period but was not previously reported.

## **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 two FOIA requests; we responded to both 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>
Neighborhood Legal Services of Los Angeles County	11/22/2019	\$129,485	\$0	\$0
Central Virginia Legal Aid Society	12/23/2019	\$7,555	\$0	\$7,400
Legal Services of the Hudson Valley	2/20/2020	\$0	\$0	\$0

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

<u>Report Title</u>	<u>Date Issued</u>
Grantee Site Vulnerability Assessment Management Analysis Report	3/31/2020

**TABLE I**  
**Part C**  
**Quality Control Reviews**

	<b><u>IPA</u></b>	<b><u>Recipient</u></b>	<b><u>Date Issued</u></b>
1	Barnes Dennig & Co., Ltd	Appalachian Research and Defense Fund of Kentucky	10/18/2019
2	Barnes Dennig & Co., Ltd	Legal Aid of the Bluegrass	11/08/2019
3	Barnes Dennig & Co., Ltd	Legal Aid Society of Greater Cincinnati	11/08/2019
4	Sobel & Co. LLC	Central Jersey Legal Services	1/08/2020
5	Sobel & Co. LLC	Legal Services of Northwest Jersey	1/08/2020
6	Maher Duessel, CPAs	Laurel Legal Services	3/11/2020
7	Berberich Trahan & Co.	Kansas Legal Services	3/11/2020

## 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.	2	\$19,893	\$0
B. Reports issued during the reporting period	2	\$137,040	\$7,400
Subtotals (A + B)	4	\$156,933	\$7,400
C. For which a management decision was made during the reporting period:	2	\$19,893 <sup>1</sup>	\$0
(i) dollar value of recommendations that were agreed to by management	2	\$19,893	\$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	2	\$137,040	\$7,400
Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

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<sup>1</sup> Management recovered an additional \$3,208 in connection with its review of one of the questioned cost referrals.

### 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

### Part 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

### Part 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>
North Penn Legal Services	3/27/2019	C	Corrective action in process. Grantee management has requested additional time to respond to OIG recommendations.
East River Legal Services	8/19/2019	A, B, D, E, F	Corrective action in process.
Legal Aid of East Tennessee	9/30/2019	A, B, C, D, G, H, J, O	Corrective action in process. Grantee management has requested additional time to respond to OIG recommendations.

**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.	3-21, 26-29
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-21
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	40
Section 5(a)(4)	Matters referred to prosecutive authorities.	26-29, 33
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.	36
Section 5(a)(7)	Summary of each particularly significant report.	3-21
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs.	38
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	39
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.	40
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.	35

Section 5(a)(17)-(18)	Statistical tables on investigations.	33
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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