

LEGAL SERVICES CORPORATION



Office of Inspector General

Semiannual Report to the Congress
April 1, 2020 – September 30, 2020

LSC | America's Partner
for Equal Justice

LEGAL SERVICES CORPORATION

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, 2020, through September 30, 2020.

During this reporting period our audit office issued four reports. We issued two 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.

The Office issued a special compendium report, provided to all grantees' executive directors and their boards of directors, presenting a summary and analysis of our internal control audits over a two-year period. We are hopeful that this report will encourage and assist in grantees' efforts to improve internal controls in areas where recurring issues were identified.

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.

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 26 QCRs.

Our investigations office opened 16 new cases and closed 17 cases during the reporting period. The investigations involved a variety of criminal and regulatory matters, including fraud, false claims, theft, the diversion of clients for personal gain, and other potential violations of LSC statutes and regulations. This period, cases arising from OIG investigations resulted in a conviction and sentencing, and a pretrial diversion, and provided full restitution to a grantee and a subgrantee of losses they incurred due to fraud and theft.

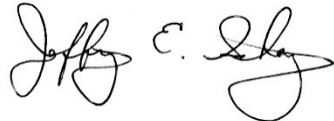
We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. In light of the pandemic, we will be conducting our fraud awareness briefings and vulnerability assessments remotely. We also prepared a recorded version of a briefing and posted it on our website,

to make it readily and widely available to grantees. We posted four “Fraud Corner” articles, issued a fraud alert to all grantees, and developed a webpage highlighting recent scams related to COVID-19 and providing resources to help recognize and combat them.

I want to give special recognition to all OIG and LSC staff members for the dedicated and professional manner in which they have carried out their responsibilities under exceptional and challenging conditions.

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 the first name "Jeffrey" being the most prominent part.

Jeffrey E. Schanz
Inspector General
October 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

During this reporting period the OIG issued four reports: a special report summarizing the findings and recommendations of our internal control audits of grantees over a two-year period, two internal control audit reports with respect to grantee operations, and a year-end financial statement audit of LSC. Summaries of the reports are provided below. The full reports are available on our website. 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 94 IPA reports, with fiscal year ending dates ranging from June 30, 2019, through January 31, 2020. Of the 94 audits, nine were of sub-recipients of LSC funds.

We issued 26 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.

Compendium Report

In September 2020, the OIG issued its third special compendium report, providing a summary and analysis of the findings and recommendations contained in our internal control audit reports issued from October 1, 2017, through September 30, 2019. Our objective was to consolidate the results to provide insight into the content and frequency of findings and recommendations to help LSC and grantee management better recognize and respond to recurring problems. The report also compares findings and recommendations issued during the period to those of the prior compendium report, which summarized the findings and recommendations from audits issued from October 1, 2015, through September 30, 2017.

Over the recent two-year period, the OIG issued seven internal control audits containing 125 recommendations to improve internal controls at LSC grantees. The report categorized recommendations into 14 topics, the majority of which addressed issues with written policies and procedures, credit cards, contracting, general ledger and financial controls, disbursements, and fixed assets. The OIG also issued recommendations related to an array of other internal control topics including cost allocation, internal reporting and budgeting, derivative income, employee benefits, segregation of duties, accounting system access, payroll, and financial reporting.

When compared to the compendium report issued in August 2018, we found that written policies and procedures remained consistently deficient among LSC grantees. In most cases, we determined that written policies were missing from the grantees' accounting manuals altogether or did not reflect the practices already in place. Most grantees

indicated they were either unaware of the comprehensive steps needed for full compliance with LSC requirements or did not realize the need for written policies in the specific areas cited.

To address findings related to overall written policies and procedures, the OIG recommended that executive directors establish or update written policies and procedures in all areas to ensure they describe in sufficient detail all processes and controls currently used by the grantees, and are in accordance with LSC's Accounting Guide.

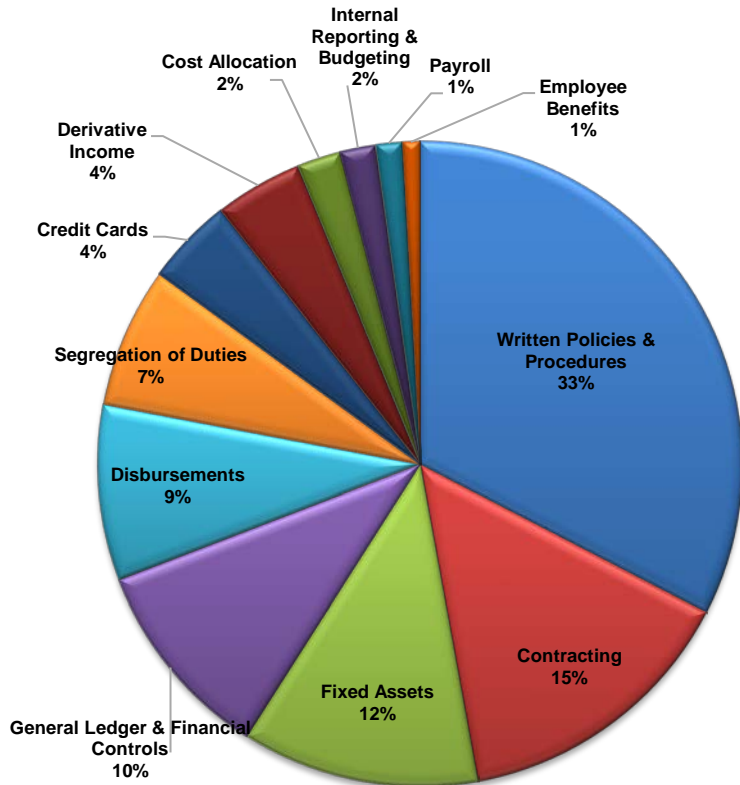
Findings in the areas of contracting, disbursements, and general ledger and financial controls also remained generally consistent with the prior period, while credit card findings emerged as more significant issues during this reporting period.

The report recognized that in many areas the practices actually in place were more advanced than reflected by grantees' written policies. We urged grantees to use the report to help focus their efforts on improving written policies and procedures and the other highlighted areas, and to thereby help ensure a better internal control environment, avoid similar audit findings in the future, and facilitate compliance with professional standards and legal and regulatory requirements.

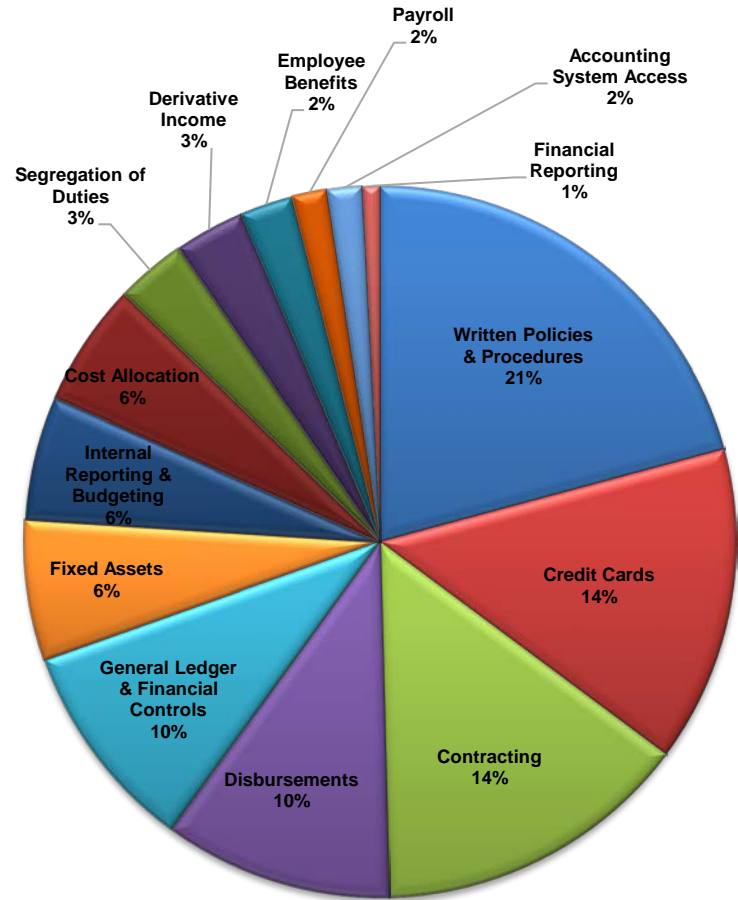
The following chart presents the results of our analysis of findings and recommendations issued during this period, October 1, 2017, through September 30, 2019, in comparison to the previous reporting period, October 1, 2015, through September 30, 2017.

Comparison of Total Recommendations by Topic

Percentage of Recommendations from Reports Issued 10/1/15 - 9/30/17



Percentage of Recommendations from Reports Issues 10/1/17 - 9/20/19



New Mexico Legal Aid

The OIG assessed the adequacy of selected internal controls in place at New Mexico Legal Aid (NMLA). The onsite work was conducted at the grantee's administrative office in Albuquerque, New Mexico. While most of the controls reviewed were adequately designed and properly implemented, we found that controls in the areas detailed below needed to be strengthened and/or formalized in writing.

Findings

Our review identified eight areas where improvements were needed. There were two findings relating to credit cards; one finding relating to cost allocation; one finding relating to general ledger and financial controls; one finding relating to contracting; two findings relating to disbursements; and one finding relating to payroll.

The majority of findings resulted from the need to improve documentation and written policies and procedures. For example, we found a lack of written policies over credit cards, inadequate documentation of contract actions, and incomplete personnel records.

The OIG also found that all three of NMLA's accounting staff had the same user access within the fund accounting software system. Additionally, all users could make changes in all modules within the system.

We found one unallowable transaction in which a membership fee of \$150 was charged to LSC funds. However, the OIG regarded the amount as immaterial and the mistake as a management oversight because other membership fees were charged to funding sources other than LSC.

Recommendations

The OIG made nine recommendations, primarily involving the need to develop or improve written policies and ensure adequate documentation is maintained.

Recommendations involving other areas included:

- One recommendation related to general ledger and financial controls, addressing the need to update user access rights to the accounting software according to each user's responsibilities; and
- One recommendation related to disbursements, addressing the need to ensure that LSC-unallowable costs are charged to funding sources other than LSC.

The grantee agreed with six recommendations, and partially agreed with three.

NMLA completed corrective actions for all nine recommendations; the OIG considers all recommendations to be closed.

Idaho Legal Aid Services, Inc.

The OIG assessed the adequacy of selected internal controls in place at Idaho Legal Aid Services, Inc. (ILAS). The onsite work was conducted at the grantee's administrative office in Boise, Idaho. While most 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.

Findings

Our review identified five areas where improvements were needed. There were three findings relating to credit cards; four findings relating to general ledger and financial controls; two findings relating to disbursements; two findings relating to payroll; and one finding relating to employee benefits.

The majority of findings resulted from the need to improve documentation and written policies and procedures. For example, we found inadequate written policies and documentation for credit cards and for requesting and approving leave; inadequate documentation for disbursements; unresolved outstanding checks and untimely bank reconciliations for general ledger and financial controls; and a lack of segregation of duties for general ledger and financial controls and payroll.

The OIG also found that while all salary advances were properly authorized and were repaid within required timeframes, most had exceeded employee leave balances, contrary to provisions in the ILAS Employee Handbook.

Recommendations

The OIG made fourteen recommendations, primarily involving the need to develop or improve written policies and ensure adequate documentation is maintained.

Recommendations involving other areas included:

- One recommendation related to credit cards, addressing the need to implement credit card acknowledgement agreements;
- Four recommendations related to general ledger and financial controls, addressing the need to resolve outstanding checks, perform bank reconciliations timely, document the review and approval of reconciliations, and assign an independent person to prepare the reconciliations; and
- One recommendation addressing the need to ensure segregation of duties over payroll preparation and disbursement.

The grantee agreed with twelve recommendations, and partially agreed with two. The recommendations will remain open until the OIG is notified that the proposed actions have been completed and the supporting documentation is provided.

FY 2019 Corporate Audit

The Corporation's FY 2019 financial statement audit was conducted by an independent public accounting (IPA) 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 Independent Auditor's Report on Internal Control over Financial Reporting identified one significant deficiency in internal control. A significant deficiency is one that is considered to be less severe than a material weakness, yet important enough to merit attention by those charged with governance. The auditors reported that they found improper classification of board designated net assets which resulted in inaccurate presentation of net assets between the "without donor restrictions" and "with donor restrictions" categories. LSC may recover funds from basic field grants for a variety of reasons. Although LSC's use of the returned funds was consistent with the purpose for which the basic field program funds were awarded, LSC's accounting treatment for those returned funds did not accurately characterize them. While this was LSC's historical practice, it had not been questioned during prior audits. The Corporation agreed with the IPA's finding and recommendation, addressed the issue, and corrected that treatment.

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

Statistical Summary

Audits

Open at beginning of reporting period	6 ¹
Opened during the period	3
Audit reports issued or closed during reporting period	4
Open at end of reporting period.....	5

Recommendations to LSC Grantees

Pending at beginning of reporting period.....	85 ²
Issued during reporting period	23
Closed during reporting period	48
Pending at end of reporting period	60

¹ Our previous report showed five audits open at the end of the reporting period. We subsequently determined that the corporate audit was inadvertently omitted from the statistical summary.

² Our previous report showed 84 recommendations pending at the close of the reporting period. We subsequently determined that one additional recommendation had not, in fact, been closed.

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 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.

On March 18, 2020, the OIG extended the deadline for the submission of fiscal year-end December 31, 2019 audits to May 29, 2020, in response to developments regarding the COVID-19 pandemic. On May 18, 2020, the OIG issued a second extension to LSC grantees with fiscal years ending between December 31, 2019, and June 30, 2020, to ten months after the end of the fiscal year.

Quality Control Reviews

We began the tenth 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 certified public accounting (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 26 QCRs of fiscal year (FY) 2018 and 2019 audited financial statements of LSC grantees.

The QCRs found that seven of the audited financial statements met standards with no exceptions. Nineteen of the audited financial statements met standards with one or more exceptions, 13 of which required the IPA to perform additional work and provide documentation to support their conclusions. We evaluated and accepted the additional work and documentation submitted by seven of the 13 IPAs during this reporting period. The additional work and documentation required of the six remaining IPAs was not due to the OIG until after the close of this reporting period. For six of the 19 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 two FY 2017 financial statement audits and three FY 2018 financial statement audits met standards with exceptions. We issued notices to the IPAs requiring them to perform corrective action and to provide additional information to address the deficiencies. We evaluated the additional work performed by the IPAs in this reporting period and accepted all five 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 94 IPA audits of grantees with fiscal year ending dates from June 30, 2019, through January 31, 2020. Of the 94 audits, nine are sub-recipients of LSC funds. These audit reports contained 119 findings. The OIG reviewed the findings and determined that 60 were not significant, or that corrective action had already been completed. The remaining 59 were referred to LSC management during the period for follow-up. Additionally, the OIG referred 13 findings from reports

reviewed during the prior reporting period. The following tables present information on the findings outlined in this paragraph.

Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2018, through January 31, 2020

Total Number of Findings Referred	72
Number of Findings Accepted for Review by LSC Management.....	72
Number of Findings Pending Determination by LSC Management.....	0

Types of Findings Referred to LSC Management for Follow-up

<u>Category</u>	<u>Number of Findings</u>
Financial Transactions and Reporting	38
Missing Documentation	17
Policies and Procedures/Other	11
Segregation of Duties	3
Timekeeping.....	3
TOTAL.....	72

INVESTIGATIONS

During this period, OIG investigative activity resulted in one guilty plea, one sentencing action, and one pre-trial diversion. We also made a referral to LSC management for consideration of questioned costs totaling \$12,862.

The OIG opened 16 cases during the period. These included 10 investigative cases, three Regulatory Vulnerability Assessments, and three Fraud Vulnerability Assessments. The investigative cases included allegations of theft, diversion of clients for personal gain, time and attendance fraud, cyber fraud, contract fraud, outside practice of law, and other potential violations of LSC statutes and regulations.

The OIG closed 17 cases during the reporting period. These included 11 investigative cases, two Regulatory Vulnerability Assessments, one questioned cost referral, and three Fraud Vulnerability Assessments. The OIG also issued five fraud prevention advisories and created a webpage related to COVID-19 scams.

Criminal Proceedings

Guilty Plea and Sentencing of a Former Grantee Accountant

As reported in our April 2020 Semiannual Report to Congress, an OIG investigation led to a criminal information charging a former grantee accountant with theft.

The investigation found that the grantee's former internal accountant had stolen \$497 in cash from the grantee's petty cash box, and another \$1,180 by making a double payroll payment to herself. The former accountant made full restitution to the grantee on July 17, 2019.

On August 18, 2020, the former grantee accountant pled guilty to theft and was sentenced to one-year imprisonment (suspended), one-year supervised probation, \$245 in fines and fees, and 80 hours of community service.

Pretrial Diversion for Former Subgrantee Executive Director

An OIG referral led to a former LSC subgrantee executive director entering into a pretrial diversion agreement in federal district court on July 17, 2020, for theft from a program receiving federal funds. As part of the agreement, the former executive director made full restitution and was placed on one year of supervised probation.

The OIG investigation found that the former LSC subgrantee executive director submitted false timesheets in order to receive pay totaling nearly \$5,950 for hours not worked over a three-year period. The fraudulent timesheets claimed work hours when the employee was actually taking classes towards a master's degree, studying for the bar, recovering from a medical procedure, and on vacation.

Recovery Actions

Questioned Cost Referral Regarding Local Meals Purchased by Grantee Employees

As a result of an OIG Fraud Vulnerability Assessment, the OIG identified several local meals purchased on a grantee credit card and allocated to LSC grant funds. The OIG opened an investigation and identified a total of \$12,862 in potentially questionable purchases for purposes such as local managers' meeting lunches, birthday lunches, and retirement parties. The investigation also identified non-meal purchases such as mugs, birthday cards, and mementoes for staff or volunteer attorneys.

The OIG referred the potential questioned costs to LSC management on July 14, 2020.

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). In view of the pandemic, we will be conducting these briefings and assessments remotely. We also issue fraud alerts and post 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.

A recording of a FAB was completed and recently posted on the OIG website. The primary purpose of the FAB recording is to reach new executive directors and fiscal officers hired during each semi-annual period. By placing the FAB on the OIG website, it allows the intended audience to view the recording at a time convenient to their work schedule. We also plan to use the FAB recording as we conduct remote FVA and RVA visits. We encourage all grantee employees to visit the OIG website and hope they will find the FAB recording a useful tool to help prevent and detect fraud.

Fraud Vulnerability Assessments

FVAs 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 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 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.

Two RVAs were closed during this reporting period.

Fraud Alert on Payroll Fraud and Contemporaneous Timekeeping

A fraud alert was issued to all grantee executive directors, board chairs, and fiscal officers highlighting past OIG investigations involving payroll fraud committed through false timekeeping and other improper manipulations of a payroll system.

In addition to providing examples of payroll fraud at LSC funded programs, the article also explained the importance of the contemporaneous timekeeping requirement under LSC regulations, 45 CFR Part 1635, in helping to prevent, deter, and investigate payroll fraud. The article also provides several best practices that grantees can incorporate to further prevent and detect payroll fraud.

COVID-19 Scams Webpage

The OIG developed a webpage as a resource to notify LSC grantees of COVID-19 scams and other risks that may affect grantee business operations, as well as scams that may target grantee clients. The webpage provides direct links to resources where grantees can access more information on how to identify scams related to COVID-19 and how to notify staff and clients of these risks.

The webpage also provides a list of federal and state resources that explain where known or suspected scams should be reported and the essential information to include when reporting a scam. The webpage can be found through a banner on the OIG home page and through a button that appears on each page of the OIG website.

"The Fraud Corner"

"The Fraud Corner," a feature on the OIG website, highlights fraud prevention issues identified through OIG investigative activities. This reporting period we posted four articles: "Third Party Payment Services," "COVID-19 Purchasing Scams," "FBI COVID-19 PSA Addressing Working in Virtual Environments," and "ACH Transactions during COVID-19."

In the "Third Party Payment Services" article, we discussed fraud risks associated with the increased use of third-party payment services such as PayPal, Venmo, and Apple Pay while working remotely during the pandemic. The article also provided guidance to

grantees on best practices to aid grantees in preventing and detecting theft through third party payment applications and services.

In the “COVID-19 Purchasing Scams” article, we discussed purchasing scams occurring during the COVID-19 crisis, whereby vendors or contractors may commit acts of price gouging, price-fixing, and bid rigging against buyers. The article also reminded grantees to make reasonable and responsible purchasing decisions, and to follow the guidance in LSC Program Letter 16-3, “Procurement Policy Drafting Guidance for LSC Recipients.”

In the article “FBI COVID-19 PSA Addressing Working in Virtual Environments,” we discussed issues that may arise from virtual work environments as a result of COVID-19. The article provided a link to a Public Service Announcement (PSA) from the FBI, titled “Cyber Actors Take Advantage of COVID-19 Pandemic to Exploit Increased Use of Virtual Environments,” that warned of a variety of specific telework vulnerabilities, including: scams targeting software from untrusted sources; communication tools; remote desktop access; frauds by suppliers; frauds involving education technology and platforms; and Business Email Compromise (BEC) schemes, in which scammers send emails that appear to be from known vendors, tricking businesses into making payments via electronic transfers and other means outside their normal methods, ostensibly because of COVID-related issues.

In the article “ACH Transactions during COVID-19,” we discussed how OIG reviews have revealed that many LSC grantees have been using Automated Clearing House (ACH) transactions in which payments are transferred electronically from one verified bank account to another. We noted that given the many recent constraints grantees have faced on access to their offices, accounting systems, and traditional payment mechanisms such as check writing, the COVID-19 pandemic has likely led to a substantial increase in grantees’ use of ACH transactions. The article highlighted both the possible hazards and advantages of such transactions. We detailed ways in which grantees could reduce their vulnerability to ACH fraud, and informed grantees of some potential benefits relating to ACH transactions.

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 57 Hotline contacts. Of these matters, 15 were referred to LSC management for follow-up, eight were opened as investigations, and the remaining 34 were closed.

Statistical Summary¹

Investigative Cases

Open at the beginning of period	20
Opened during period	16
Closed during period	17
Open at the end of period	19
Investigative reports issued.....	24

Prosecutorial Activities

Guilty Plea	1
Sentencing	1
Pretrial Diversion Agreement	1

Investigative Activities

Inspector General subpoenas issued.....	7
-----------------------------------------	---

Monetary Results

Restitution	\$5,950
Probation Fee.....	\$120
Special Assessment.....	\$100
Court Costs	\$25
TOTAL	\$6,195

¹ Data reflected in the statistical summary were compiled based on direct counts.

OTHER OIG ACTIVITIES

CARES Act

The Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) provided \$50 million in supplemental funding to LSC to support legal aid work related to the COVID 19 pandemic. Within weeks, LSC successfully awarded and distributed virtually all that amount to grantees delivering legal aid through LSC grants. All such CARES Act funding is subject to extensive oversight, including by independent auditors, LSC management, the OIG, and the Pandemic Response Accountability Committee (PRAC), a committee of the Council of the Inspectors General on Integrity and Efficiency.

In response to a PRAC request, the OIG provided its assessment of the top management challenges facing LSC in handling pandemic-related responsibilities.

The top LSC challenges identified by the OIG and provided here in summary are:

- Worsening Shortfall in Legal Services Delivery System
- Distribution of Funding
- Remote Operations
- Grants Oversight
- Control Systems
- Monitoring
- Data Challenges

The LSC OIG's input was included in full in the PRAC's Report, "*Top Challenges Facing Federal Agencies: COVID-19 Emergency Relief and Response Efforts*," released in June and available on the Oversight.gov website. The report's stated intent was to consolidate and provide insight into the most frequently reported challenges for agencies' response to the coronavirus pandemic, and to assist policymakers in determining how best to address those and similar challenges in the face of changing priorities and emerging risks.

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.

LSC's Strategic Plan. During the reporting period, the OIG provided comments in response to the "LSC Strategic Plan Questionnaire." We provided a detailed memorandum on several areas of strategic importance which we believed LSC should consider in its future planning and operations.

Our comments principally addressed the following areas:

Strengths and Opportunities:

- Facilitation and coordination;
- Similar program and federal resources;
- Grant making;
- Human capital management; and
- Planning and performance.

Challenges and Threats:

- Addressing the shortfall in legal services delivery system;
 - a. Avenues of funding;
 - b. Efficient and effective legal services delivery;
 - c. Alternative legal services delivery;
 - d. Improve performance measurement and accountability;
 - e. Information management and technology approach;
- Grant Oversight;
- Compliance;
- Information technology infrastructure and security; and
- COVID-19 Pandemic.

We also provided excerpts from a Government Accountability Office (GAO) publication entitled “Agencies’ Strategic Plans under GPRA: Key Questions to Facilitate Congressional Review.” The document contained a list of questions designed to assist Congressional staff in their consultations with federal agencies, which we recommended the Corporation consider as it proceeds in its strategic planning process.

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 four 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.

CIGIE Evaluation Support. During this period, we provided extensive input to the CIGIE Inspections & Evaluations Peer Review Working Group on its draft “Guide for Conducting External Peer Reviews of Inspection and Evaluation Organizations of Federal Offices of Inspector General.”

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 previous 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.”

This period, we underwent a peer review conducted by the Amtrak Office of Inspector General. Its final report will be submitted after the close of the current period.

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 2019 Fiscal Year Audit of the Corporation	05/21/2020	\$0	\$0	\$0
New Mexico Legal Aid	07/08/2020	\$0	\$0	\$0
Idaho Legal Aid Services, Inc.	09/01/2020	\$0	\$0	\$0
Compendium Report on Internal Control Audit Findings and Recommendations	09/23/2020	\$0	\$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	Duplantier, Hrapmann, Hogan & Maher, LLP	Southeast Louisiana Legal Services Corporation	4/06/2020
2	James Moore & Co.	Community Legal Services of Mid-Florida, Inc.	4/22/2020
3	Romeo, Wiggins & Company, L.L.P.	Legal Aid of North Carolina, Inc.	4/22/2020
4	Alexander Thompson Arnold PLLC	West Tennessee Legal Services, Inc.	4/22/2020
5	Ellsworth & Stout, CPAs	Nevada Legal Services, Inc.	4/30/2020
6	Brady Martz & Associates, P.C.	Legal Services of Northwest Minnesota Corporation	5/07/2020
7	Brady Martz & Associates, P.C.	Anishinabe Legal Services, Inc.	5/08/2020
8	C.J. Schlosser & Company, L.L.C.	Land of Lincoln Legal Assistance Foundation, Inc.	5/08/2020
9	Whittlesey PC	Statewide Legal Services of Connecticut, Inc.	5/14/2020
10	Vachon Clukay & Company, PC	Legal Advice & Referral Center, Inc.	5/21/2020
11	JMM & Associates	Legal Services Law Line of Vermont, Inc.	6/02/2020
12	EFPR Group CPA	Neighborhood Legal Services, Inc.	6/30/2020
13	EFPR Group CPA	Legal Assistance of Western New York, Inc.	6/30/2020
14	Victor J. Cannistra, CPA, P.C.	Legal Services of the Hudson Valley	6/30/2020
15	Harrington Langer & Associates	Central Minnesota Legal Services, Inc.	7/09/2020
16	Hinkle + Landers, CPAs	New Mexico Legal Aid	7/15/2020
17	MCM CPAs & Advisors LLP	Legal Aid Society	7/21/2020
18	Mauldin & Jenkins, LLC	Georgia Legal Services Program	7/22/2020
19	Mauldin & Jenkins, LLC	Atlanta Legal Aid Society, Inc.	7/22/2020
20	Harrington Group, CPAs, LLP	Bay Area Legal Aid	7/22/2020
21	Green & Associates LLC	Colorado Legal Services	7/27/2020
22	Squar Milner LLP	California Rural Legal Assistance, Inc.	8/20/2020
23	Yoakum, Lovell & Co. PLC	Legal Aid of Arkansas, Inc.	8/20/2020
24	Harrington Group, CPAs, LLP	Legal Aid Foundation of Los Angeles	8/28/2020
25	HoganTaylor LLP	Oklahoma Indian Legal Services, Inc.	9/8/2020
26	Eide Bailly, LLP	Dakota Plains Legal Services, Inc.	9/15/2020

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	\$137,040	\$7,400
B. Reports issued during the reporting period	0	\$0	\$0
Subtotals (A + B)	2	\$137,040	\$7,400
C. For which a management decision was made during the reporting period:	2	\$137,040	\$7,400
(i) dollar value of recommendations that were agreed to by management	2	\$87,421 ¹	\$1,398
(ii) dollar value of recommendations that were not agreed to by management	2	\$49,619	\$6,002
D. For which no management decision had been made by the end of the reporting period	0	\$0	\$0
E. Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

¹ Management recovered an additional \$8,147.69 in questioned costs from a grantee 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

<u>Report Title</u>	<u>Date issued</u>	<u>Comments</u>
Central Virginia Legal Aid Society, Inc.	12/23/2019	The grantee partially responded to two recommendations and was unresponsive to three. The OIG referred the five outstanding recommendations to LSC management for resolution. LSC management is working with the grantee to resolve the recommendations and will notify the OIG upon resolution.
Legal Services of the Hudson Valley	2/20/2020	The grantee was partially responsive to seven recommendations. Grantee management either partially agreed, disagreed, and/or provided a response to our recommendations that suggests that the grantee will likely continue their process as is. The OIG referred the seven outstanding recommendations to LSC management for resolution. LSC management is working with the grantee to resolve the recommendations and will notify the OIG upon resolution.

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</u> ^{1,2}	<u>Comments</u>
East River Legal Services	8/19/2019	E	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Neighborhood Legal Services of Los Angeles County	11/22/2019	C, D, F, H, O, P	Corrective action in process. The OIG is working directly with the grantee to close these recommendations. After close of the period, grantee management submitted responses to the recommendations.
Central Virginia Legal Aid Society, Inc.	12/23/2019	B, F, G, H, P	Corrective action in process. The OIG is working directly with the grantee to close seven recommendations. LSC management is working with the grantee to resolve the five referred recommendations.
Legal Services of the Hudson Valley	02/20/2020	A, B, C, D, F, G, H, K, M	Corrective action in process. Per the grantee's request, the OIG has allowed additional time to respond to 17 recommendations. LSC management is working with the grantee to resolve the seven referred 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		

¹ There are no quantified potential cost savings associated with these open recommendations.

² The letters in this column do not equate to the total number of findings for each grantee. Some letters are associated with multiple findings.

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.	3-8, 13-14
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-8
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	26-27
Section 5(a)(4)	Matters referred to prosecutive authorities.	13-14, 18
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.	23
Section 5(a)(7)	Summary of each particularly significant report.	3-8
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs.	25
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	26
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.	27
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.	28
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.	22

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

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



[Oversight.gov](https://www.oversight.gov) was created by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to put on a single website all public reports from federal Inspectors General (IGs). The site includes a publicly accessible, text searchable repository of reports published by IGs, a user-friendly map to find reports based on geographic location, and contact information for each IG's whistleblower hotline.

Like the other OIGs, at the Legal Services Corporation we will continue to post our reports to our own website, www.oig.lsc.gov, but with Oversight.gov, users can 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. Users can receive notifications when new reports are added to the site by following CIGIE's Twitter account, [@OversightGov](https://twitter.com/OversightGov).



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