

LEGAL SERVICES CORPORATION



Office of Inspector General

Semiannual Report to the Congress
October 1, 2020 – March 31, 2021

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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 October 1, 2020, through March 31, 2021.

During this reporting period our audit office issued three 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.

Our third report was a white paper on Challenges Facing LSC in Monitoring the COVID-19 Response Grant. The paper presented an overview of potential risks that LSC and its grantees might face related to the COVID-19 pandemic and the receipt and disbursement of Coronavirus Aid, Relief, and Economic Security (CARES) Act funds. We also provided suggested strategies to help mitigate the risks posed by the identified challenges.

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 eight QCRs.

Our investigations office opened 23 new cases and closed 16 cases during the reporting period. The investigations involved a variety of criminal and regulatory matters, including fraud, false claims, theft, the outside practice of law, and other potential violations of LSC statutes and regulations. One case involved a major cyber-fraud committed against LSC and one of its grantees. We provided a special investigative report detailing what occurred and identifying a range of actions to help prevent such events in the future. Management promptly took steps to implement corrective actions. This period, OIG investigations led to monetary results of more than \$1.19 million.

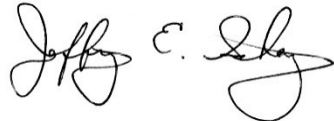
We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. During the pandemic, we have been conducting our fraud awareness briefings and vulnerability assessments remotely. We also prepared a recorded version of a briefing and posted it on our website, to make it readily and widely available to grantees. Through fraud alerts, articles on our website, and special advisories, we seek to

quickly notify all grantees of cyber-attacks, fraudulent schemes, and other crimes against grantees, and provide practical information on how to prevent, detect, or respond to such incidents.

I want to give special recognition to all OIG and LSC staff members for the dedicated and professional manner in which they continued to carry out their responsibilities under the challenging conditions of the 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 written in a cursive style with a large, stylized "J" and "S".

Jeffrey E. Schanz
Inspector General
April 30, 2021

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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 fiscal year (FY) 2021 appropriation (exclusive of OIG operations) was \$459.5 million. LSC received an additional \$50 million through supplemental CARES Act funding in FY 2020. 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 three reports: two internal control audit reports with respect to grantee operations, and a white paper on Challenges Facing LSC in Monitoring the COVID-19 Response Grant. Summaries of the reports are provided below. The full reports are available on our website. At the conclusion of the period, we had six 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 47 IPA reports, with fiscal year ending dates ranging from December 31, 2019, through September 30, 2020. Of the 47 audits, five were of sub-recipients of LSC funds.

We issued eight 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.

Legal Services Vermont

The OIG assessed the adequacy of selected internal controls in place at Legal Services Vermont (LSV). The onsite work was conducted at the grantee's administrative office in Burlington, VT. 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 ten findings where improvements were needed. There was one finding relating to program integrity; two findings relating to contracting; two findings relating to management reporting and budgeting, one finding relating to disbursements; one finding relating to credit cards; one finding relating to general ledger and financial controls; one finding relating to fixed assets; and one finding relating to payroll.

The finding relating to program integrity stemmed from the grantee's relationship with a related legal aid organization, Vermont Legal Aid (VLA). The OIG found that VLA appears to be a legally separate entity; however, since a number of individuals working in the areas of financial management, information technology, and human resources were shared by both organizations, we had concerns as to whether there was adequate separation of personnel, as contemplated by LSC regulations.

The OIG also found that LSV did not have a payroll bank account kept separately from their operating account as provided by the LSC Accounting Guide.

The majority of the remaining findings resulted from the need to improve and maintain documentation and to enhance written policies and procedures. For example, we found a lack of written policies over budgeting, a lack of credit card user agreements, inadequate documentation of contract processes, and inaccuracies in property records.

Recommendations

The OIG made 14 recommendations, primarily involving the need to develop or enforce written policies, establish credit card user agreement forms, and ensure that reports are prepared timely and adequate documentation is maintained.

Recommendations in other areas included:

- One recommendation related to program integrity, advising LSV to consult with LSC management to ensure their relationship with VLA adequately follows LSC regulations regarding the existence of separate personnel; and
- One recommendation related to payroll, advising LSV to establish a bank account for payroll processing that is separate from their operating account.

LSV agreed with all 14 recommendations.

LSV completed corrective actions for four recommendations; the OIG considers these to be closed. The grantee's proposed actions for nine recommendations were responsive; these will remain open until the OIG is notified in writing that the proposed actions have been completed and supporting documentation that addresses the recommendations is provided.

LSV was also responsive to the recommendation related to program integrity; however, the OIG is referring this recommendation and the related finding to LSC management for resolution.

Legal Aid Society of Middle Tennessee and the Cumberland

The OIG assessed the adequacy of selected internal controls in place at Legal Aid Society of Middle Tennessee and the Cumberland (LAS). The onsite work was conducted at the grantee's administrative office in Nashville, Tennessee. While some 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 18 findings where improvements were needed. There was one finding relating to derivative income; five findings relating to general ledger and financial controls; three findings relating to contracting; three findings relating to disbursements;

two findings relating to cost allocation; two findings relating to credit cards; one finding relating to fixed assets; and one finding relating to employee benefits.

One finding in derivative income resulted in the OIG questioning costs totaling \$49,022, which were referred to LSC management for review and action. This amount, resulting from the grantee's sale of a property in which LSC held full reversionary interest, should have been classified as LSC derivative income.

The OIG also found there was a lack of segregation of duties in the accounting system. The accounting and human resources staffs had the same user access within the accounting system. Additionally, all fiscal department staff had edit access to the cash receipts log, including the individual responsible for transporting deposits to the bank. Thus, users were able to take actions in the system outside their areas of responsibility, increasing the risk of error, fraud, or collusion.

The majority of findings resulted from the need to improve documentation, timeliness of review and approvals, and written policies and procedures. For example, we found a lack of written policies over credit cards, inadequate documentation of contracting processes, and inadequate performance of bank reconciliations.

Recommendations

The OIG made 18 recommendations, primarily involving the need to ensure completion and timeliness of required procedures, develop or improve written policies, ensure timeliness of reviews and approvals, and ensure adequate documentation is maintained.

Recommendations in other areas included:

- One recommendation related to derivative income, addressing the need to ensure that the LSC reversionary interest is properly classified as LSC derivative income in accordance with LSC guidance; and
- One recommendation related to segregation of duties, addressing the need to update user access rights for the accounting software and cash receipts according to each user's responsibilities.

The grantee agreed with all 18 recommendations.

LAS completed corrective actions for two recommendations; the OIG considers these to be closed. The grantee's proposed actions were responsive to 10 recommendations and partially responsive to six recommendations. For the six to which they were partially responsive, LAS did not provide an action plan specific to the recommendations. These 16 recommendations will remain open until the OIG is notified in writing of the specific action plans and provided supporting documentation that addresses the recommendations.

White Paper - Challenges Facing the Legal Services Corporation in Monitoring the COVID-19 Response Grant

The OIG issued a white paper to support LSC's efforts to ensure that Coronavirus Aid, Relief, and Economic Security (CARES) Act funds achieve their vital purpose in serving the legal needs of low-income Americans. The objective of the white paper was to provide the OIG's perspective on the potential challenges and risks faced by LSC, LSC grantees, and others involved in using CARES Act funds.

The paper identified potential challenges for LSC management to consider as they implement and oversee CARES Act funds. These challenges included issues related to grantee oversight and monitoring, procurement management, and information technology management.

The OIG provided strategies to mitigate the risks posed by these challenges. Suggested risk mitigation strategies included reviewing and enhancing internal controls, such as incorporating two-part identity verification and other methods to protect against improper payments and fraud. We also suggested increased communication between LSC management and grantees, continuous training for LSC staff and grantees on best practices related to procurement and IT security, and enhanced oversight of grantee financial data related to the CARES Act funds by LSC management.

The white paper was distributed to LSC management and the LSC Board of Directors. It is our hope that the measures we proposed, paired with steps LSC is already taking, will contribute to a reduction of LSC's vulnerabilities to fraud, waste, abuse, noncompliance, and other issues that could impact LSC and its grantees in their use of CARES Act funds to aid low-income Americans in responding to the challenges of the pandemic.

Statistical Summary

Audits

Open at beginning of reporting period	5
Opened during the reporting period.....	3
Audit reports issued or closed during reporting period	2
Open at end of reporting period.....	6

Recommendations to LSC Grantees

Pending at beginning of reporting period.....	60
Issued during reporting period	32
Closed during reporting period	46
Pending at end of reporting period	46

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 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. The deadline for fiscal year June 30, 2020 audits is now April 30, 2021.

Quality Control Reviews

We continued 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 eight QCRs of LSC grantees' audited financial statements.

The QCRs found that four of the financial statement audits met standards with no exceptions. Four of the audits met standards with one or more exceptions, two of which required the IPAs to perform additional work and provide documentation to support their conclusions. We evaluated and accepted the additional work and documentation submitted by one of the IPAs during this reporting period. The additional work and documentation required of the other IPA was not due to the OIG until after the close of this reporting period. For two of the four audited financial statements that met standards with exceptions, we issued recommendations to the IPA to implement in future audits of grantees.

During the previous reporting period, we found that one FY 2019 financial statement audit met standards with exceptions. We issued a notice to the IPA requiring them to perform corrective action and to provide additional information to address the deficiencies. We evaluated the additional work performed by the IPA in this reporting period and accepted the audit.

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. Unless the deadline is extended, 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 47 IPA audits of grantees with fiscal year ending dates from December 31, 2019, through September 30, 2020. Of the 47 audits, five are sub-recipients of LSC funds. These audit reports contained 51 findings. The OIG reviewed the findings and determined that 31 were not significant, or that corrective action had already been completed. The remaining 20 were referred to LSC management during the period for follow-up. 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, 2019, through September 30, 2020

Total Number of Findings Referred	20
Number of Findings Accepted for Review by LSC Management.....	20
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	8
Missing Documentation	5
Policies and Procedures/Other	4
Timekeeping	3
TOTAL.....	20

INVESTIGATIONS

During this period, OIG investigative activity led to monetary results totaling \$1,192,000, as well as the imposition by LSC of seven special grant conditions. We also conducted an investigation related to a business email compromise scheme perpetrated against LSC and a grantee that resulted in a \$1.1 million loss. As a result of the investigation, a referral was made to LSC management with 20 suggested corrective actions. LSC management has taken steps to implement virtually all suggested corrective actions.

The OIG opened 23 cases during the period. These included 16 investigative cases, three Regulatory Vulnerability Assessments, and four Fraud Vulnerability Assessments. The investigative cases included allegations of theft, outside practice of law, time and attendance fraud, cyber fraud, prohibited political activity, and other potential violations of LSC statutes and regulations.

The OIG closed 16 cases during the reporting period. These included 13 investigative cases, one Regulatory Vulnerability Assessment, and two Fraud Vulnerability Assessments. The OIG also issued four fraud prevention advisories and provided updated information on our OIG webpage relating to COVID-19 scams.

Investigative Activities

Investigation of \$1.1 Million Cyber-Crime Against LSC and a Grantee

LSC and one of its grantees were defrauded of \$1,103,103 through a business email compromise (BEC) scheme. (In a BEC scheme, criminals, targeting businesses that utilize wire or electronic transfers, send an email message that appears to be a legitimate request from a known source, in order to induce a fraudulent transfer of funds.)

In this case, a cyber-criminal created spoofed email domains for LSC and an LSC grantee. Using the spoofed email domains, the cyber-criminal impersonated LSC and grantee fiscal employees and sent emails requesting an LSC bank account change for the grantee. LSC and grantee employees, believing the request to be legitimate, supplied the requested information. The cyber-criminal then used the information to successfully request that LSC update the grantee's banking information of record to the cyber-criminal's banking information. As a result, the grantee's scheduled LSC grant payment was diverted to the cyber-criminal's bank account. The money was immediately transferred to a third domestic bank and then to a bank outside the country.

LSC promptly reported the matter to the FBI, which initiated an investigation. LSC also retained the services of a forensic consulting firm to advise and assist in responding to the incident. The OIG and LSC have provided assistance to the FBI in its investigation. The OIG initiated an independent investigation into the BEC scheme to determine exactly

what occurred and what steps might be taken to protect against future incidents of this kind, as well as make other recommendations as appropriate.

Based on our investigation, the OIG issued a special report to LSC management. In addition to detailing what occurred, we identified a number of contributing factors that may have led to the success of the scheme. We referred 20 specific suggested corrective actions to LSC management to help prevent, detect, or mitigate such events in the future.

LSC management has taken steps to implement virtually all of the suggested corrective actions, including new financial and grant management practices, and organizational and systems security enhancements. LSC increased its management and grants oversight budget by \$150,000 in order to support its implementation efforts. Some actions taken by LSC also encompass recommendations made by its independent auditors, its forensic consultant, internal management, and others. LSC and the grantee have initiated efforts to help mitigate the loss resulting from the incident.

Technology Initiative Grant Project to be Phased-Out, Funds Re-Directed

As a result of an OIG investigation into LSC Technology Initiative Grants (TIGs) associated with a major TIG project, the OIG issued a Management Information Memorandum (MIM) to LSC. The MIM addressed a series of TIGs issued over a period of approximately 15 years and identified four substantive areas of concern related to the administration of the on-going national TIG project. Specifically, the long-standing national project is dedicated to supporting an automated document assembly platform that functions by having online users go through guided interviews to produce legal forms. Prior to the OIG issuing the formal MIM, but following investigative activities and regular briefings on our then current review, LSC elected to phase-out TIG funding for this national project over a three-year period, beginning in 2020.

The OIG confirmed that LSC management awarded “flat” TIG funding for the online platform in 2019 and reduced the annual TIG by approximately one-third in 2020. LSC management indicated they plan to continue this phase-out schedule, reducing funding each year through 2022, eventually resulting in \$0 funding. In addition, LSC management will consider the potential advantages of a direct LSC/technology vendor contract relationship for national TIG projects, which would address some of the areas of concern identified with the previous approach.

As a result of the OIG’s investigation and LSC management’s decision to phase out funding over a three-year period, \$790,000 of LSC TIG funds for this national project will be re-directed to other TIG projects.

Investigation Leads to a Grantee's Recovery of Past Due Referral Fees

As a result of an OIG investigation, last reported in our October 2019 Semiannual Report to Congress, an LSC grantee recovered \$402,000 in past due referral fees from private attorneys. The private attorneys were part of a lawyer referral service operated by the grantee. As part of an agreement with the grantee, the private attorneys were required to pay the grantee a percentage of attorneys' fees recovered as a result of the client referrals from the grantee. As a result of the OIG's investigation into a grantee supervising attorney, who was also the director of the lawyer referral service, the grantee completed an audit for a three-year period (2015-2017), which overlapped with the time period of the OIG investigation. The audit found that many private attorneys did not pay the required referral fees to the grantee.

The recovery of these referral fees was a result of the OIG's investigation into the activities of the former supervising attorney and a contract attorney, who were found to have carried out a scheme to defraud the grantee and clients. A criminal case against the former supervising attorney and contract attorney is currently pending.

Referral of Nepotism at a Grantee Program Results in Special Grant Conditions

As a result of an OIG investigation, previously reported in our April 2020 Semiannual Report to Congress, LSC management imposed seven special grant conditions on a grantee program.

The OIG investigation found several issues of nepotism, including six grantee employees related to the 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 program, including several relatives of executive and management staff.

The special grant conditions placed on the grantee include adopting a policy that prohibits the use of LSC funds to pay for the salary or benefits of related staff hired after January 1, 2021; requiring the grantee board of directors to engage an independent third party to evaluate existing hiring policies and procedures to avoid nepotism; and requiring the grantee's board of directors to review the grantee's hiring decisions on a quarterly basis, including past hiring decisions that were included in the OIG's referral.

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 are continuing to conduct these briefings and assessments remotely. We also issue fraud alerts, post articles on our online "Fraud Corner," and send email Hotline

Advisories 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 occurring within their own programs. FABs highlight the unfortunate truth that a number of LSC-funded programs have been victimized by frauds, resulting in significant losses. A recent example was the incident described above, which resulted in the diversion of more than 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 posted on the OIG website during the prior reporting period. Placing the FAB on the OIG website allows the intended audience to view the recording at a time convenient to their work schedule. During this reporting period, the OIG has used the recorded FAB during two 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 in preventing and detecting 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.

Two 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.

One RVA was closed during this reporting period.

Fraud Alert on Ransomware Attacks

A fraud alert was issued to all grantee executive directors, board chairs, and fiscal officers warning grantees of several reports of ransomware attacks directed at grantee information technology (IT) networks. The article provided grantees with cyber-security resources from the FBI and the Federal Communications Commission (FCC).

In addition, the article explained the importance of creating a system of prevention and detection and provided several best practices that grantees can incorporate to further prevent and detect ransomware attacks. The article also urged grantees to contact the appropriate federal, state, and local law enforcement authorities in the event they experience a ransomware attack.

COVID-19 Scams Webpage

As reported in our October 2020 Semiannual Report to Congress, 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 and their clients. The webpage provides direct links to resources where grantees can access more information on how to identify scams related to COVID-19 and 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 web resource continues to be updated as more schemes related to COVID-19 scams are identified. It can be found through the COVID-19 Fraud Prevention button that appears on every page of the OIG website.

This reporting period, the OIG added links on the webpage to resources provided by the Pandemic Response Accountability Committee (PRAC). The PRAC resources include alerts issued by various Inspectors General in an effort to inform and protect the public against pandemic-related fraud.

“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 one article: “Email Scams Targeting LSC and LSC Grantees.”

In this article, we discussed three email scams that targeted LSC and grantees. The article warned of social engineering techniques and systems breaches which are intended to elicit sensitive business information from unsuspecting employees. The article also provided guidance to aid grantees in preventing similar email scams.

Hotline Advisories

Hotline advisories are email advisories intended to quickly notify and warn grantees about incidents reported to our OIG Hotline. This reporting period we sent two Hotline advisory emails to grantees: “Recent Payroll Phishing Schemes and Office Burglaries” and “LSC Business Email Compromise Fraud Scheme.”

In the “Recent Payroll Phishing Schemes and Office Burglaries” email advisory, we notified grantees of a recent payroll phishing scheme perpetrated against a grantee and referred grantees to our prior Fraud Corner article, “Payroll and Direct Deposit Phishing Schemes.” We also notified grantees of several recent office burglaries occurring at grantees and provided steps to improve office security during COVID-19.

In the “LSC Business Email Compromise Fraud Scheme” email advisory, we notified grantees of an FBI warning related to a significant increase in business email compromise (BEC) schemes due to the Covid-19 pandemic. We provided several online resources related to BEC schemes and offered several additional steps to prevent similar schemes.

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 71 Hotline contacts. Of these matters, 14 were referred to LSC management for follow-up, 14 were opened as investigations, and the remaining 43 were closed.

Statistical Summary¹

Investigative Cases

Open at the beginning of period	19
Opened during period	23
Closed during period	16
Open at the end of period	26
Investigative reports issued	25

Prosecutorial Activities

Referrals accepted during the period	1
--------------------------------------------	---

Monetary Results

Funds Re-Directed for Another Purpose	\$790,000
Recovery of Past Due Fees	\$402,000
TOTAL	\$1,192,000

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

OTHER OIG ACTIVITIES

Legislative, Regulatory, and Policy Reviews

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

This period, the OIG commented on a draft proposed rule governing the timekeeping requirement for recipients of LSC funds. The timekeeping regulation requires LSC recipients to maintain records for all time spent on cases, matters, and supporting activities.

The OIG recommended changes to the regulatory sections governing the proposed definition of a case; which grantee employees are covered by the timekeeping requirement; and who has access to timekeeping records. LSC accepted these recommended changes to the proposed rule. Additionally, the OIG's comments specifically supported LSC's proposed changes that would broaden to whom the requirement applies (also suggesting even broader coverage); apply the standards outlined in the federal Uniform Grant Guidance; include a recommended time increment for timekeeping (also suggesting setting a maximum allowable time increment); and require recipients to reconcile their payroll and timekeeping records.

During the period, LSC published the proposed rule for public comment.

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 did not receive any FOIA requests.

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.

This period, we participated with CIGIE and the Government Accountability Office (GAO) in a joint coordination meeting addressing oversight activities, particularly with respect to the work of the Pandemic Response Accountability Committee (PRAC). The group also examined audit and investigative case studies, provided updates on high risk areas and

top management challenges, and shared approaches in responding to changes in the nature and conduct of oversight work.

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 Inspector General for the National Railroad Corporation (more commonly known as Amtrak). Its report was issued on November 13, 2020. 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>
Legal Services Vermont	01/11/2021	\$0	\$0	\$0
Legal Aid Society of Middle Tennessee and the Cumberlands	01/12/2021	\$49,022	\$0	\$0

Part B
Other Reports

<u>Report Title</u>	<u>Date Issued</u>
White Paper on Challenges Facing the Legal Services Corporation in Monitoring the Covid-19 Response Grant	03/02/2021

TABLE I

Part C Quality Control Reviews

	<u>IPA</u>	<u>Recipient</u>	<u>Date Issued</u>
1	Altman, Rogers & Co.	Alaska Legal Services Corporation	10/09/2020
2	Arledge & Associates, P.C.	Legal Aid Services of Oklahoma, Inc.	10/20/2020
3	Maher Duessel, CPAs	Legal Aid of Southeastern Pennsylvania, Inc.	2/10/2021
4	Maher Duessel, CPAs	North Penn Legal Services, Inc.	2/10/2021
5	Wiss & Company, LLP	Northeast New Jersey Legal Services Corporation	2/10/2021
6	Duplantier, Hrapmann, Hogan, & Maher LLP	Acadiana Legal Service Corporation	3/01/2021
7	Yoakum, Lovell, & Co. PLC	Center for Arkansas Legal Services	3/09/2021
8	Brown Armstrong Accountancy Co.	Greater Bakersfield Legal Assistance, Inc.	3/16/2021

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.	0	\$0	\$0
B. Reports issued during the reporting period	1	\$49,022	\$0
Subtotals (A + B)	1	\$49,022	\$0
C. For which a management decision was made during the reporting period:	0	\$0	\$0
(i) dollar value of recommendations that were agreed to by management	0	\$0	\$0
(ii) dollar value of recommendations that were not agreed to by management	0	\$0	\$0
D. For which no management decision had been made by the end of the reporting period	1	\$49,022	\$0
E. Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

TABLE III

Audit Reports Issued with Funds to Be Put to Better Use

	<u>Number of Reports</u>	<u>Dollar Value</u>
A. For which no management decision has been made by the commencement of the reporting period	0	\$0
B. Reports issued during the reporting period	0	\$0
Subtotals (A + B)	0	\$0
C. For which a management decision was made during the reporting period:	0	\$0
(i) dollar value of recommendations that were agreed to by management	0	\$0
(ii) dollar value of recommendations that were not agreed to by management	0	\$0
D. For which no management decision had been made by the end of the reporting period	0	\$0
For which no management decision had been made within six months of issuance	0	\$0

TABLE IV

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. The OIG referred two additional recommendations to LSC management during this period. LSC management is working with the grantee to resolve all seven 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>
Neighborhood Legal Services of Los Angeles County	11/22/2019	F	Corrective action in process. The OIG is working directly with the grantee to close one recommendation.
Legal Services of the Hudson Valley	02/20/2020	B, D	Corrective action in process. The OIG is working directly with the grantee to close these recommendations.
Idaho Legal Services	09/01/2020	F, H, P	Corrective action in process. The OIG is working directly with the grantee to close these 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.	3-6, 11-13
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-6
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.	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.	22
Section 5(a)(7)	Summary of each particularly significant report.	3-6, 11-13
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs.	24
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	25
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.	26
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.	27
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.	21

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).



LSC | America's Partner
for Equal Justice

LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL HOTLINE

IF YOU SUSPECT–

FRAUD INVOLVING LSC GRANTS OR OTHER FUNDS

WASTE OF MONEY OR RESOURCES

ABUSE BY LSC EMPLOYEES OR GRANTEEES

VIOLATIONS OF LAWS OR LSC REGULATIONS

PLEASE CALL OR WRITE TO US AT –

PHONE 800-678-8868 OR 202-295-1670

FAX 202-337-7155

E-MAIL HOTLINE@OIG.LSC.GOV

MAIL P.O. BOX 3699

WASHINGTON, DC 20027-0199

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