

SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2025 - SEPTEMBER 30, 2025





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

A Message from the Inspector General

I am pleased to submit this report on the activities and accomplishments of the Legal Services Corporation (LSC) Office of Inspector General (OIG) for the period April 1, 2025, through September 30, 2025.

During this reporting period, consistent with the goals and objectives in our <u>Strategic Plan</u>, we conducted agile oversight engagements and helped LSC stay ahead of the curve in addressing risks, taking corrective actions, and preventing fraud, waste, and abuse. For example, to that end, we issued a performance audit on LSC's administration of Disaster Grants. Based on our recommendations, LSC updated, clarified, and finalized its Disaster Grant guidance and procedures, thus improving its ability to manage the program and monitor any future funding streams.

Over the last six months, we conducted high-impact audits, investigations, and other proactive engagements in line with the Inspector General Act, as amended. Highlights include:

- We closed 61 audit recommendations that spurred improvements in grantees' internal
 controls in key areas such as allocation of costs charged to LSC grants, internal reporting
 and budgeting, written policies and procedures, client trust funds, payroll, contracting, and
 disbursements.
- We provided oversight of the annual audit of LSC'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 fulfilled our responsibility to review grantees' financial statement audit reports. We reviewed 112 audit reports of LSC grant recipients issued by Independent Public Accountants (IPAs), referring 50 significant findings to LSC management for corrective action. Relatedly, this period we issued an Advisory titled, Emphasizing the Responsibility to Submit Audited Financial Statements on Time as an LSC Grantee, to underscore grantees' responsibility to timely submit audited financial statements, in accordance with OIG Guidance. These audits promote transparency and integrity in the use of federal funds and

are required under federal appropriations law.

- We continued our comprehensive audit quality control program, completing 14 Quality Control Reviews (QCR) of the firms that conduct financial statement audits of LSC grantees. QCRs are intended to help IPAs conduct rigorous and efficient grantee audits. We also issued two products based on QCR data. First, we issued an Advisory, Ensuring Independent Public Accounting Firms Conduct Rigorous Annual Audits of LSC Grantees Recommendations Based on Fiscal Years 2023 and 2024 Quality Control Reviews, that provided a summary of QCR findings and identified areas where controls could be strengthened. Second, we issued a Bulletin, Elevating Your Audit How to Improve Your Review of "Matters," emphasizing the need for rigorous review of noncase activities during annual audits.
- OIG investigative work promoted integrity and ethical use of U.S. taxpayer dollars. This included obtaining one guilty plea, two sentencings, and two restitution orders totaling \$74,972 related to theft of program funds and mail fraud. Our work also resulted in three recovery actions totaling \$46,175 and three referrals to LSC totaling \$330,941. We opened 15 investigative cases, closed 18 cases, and issued 32 investigative reports involving issues such as theft and misuse of funds, impermissible lobbying, time and attendance fraud, and impermissible outside practice of law.
- The LSC OIG Investigations and Audit staff presented financial risks and opportunities at LSC's Chief Financial Officer (CFO) Bootcamp with approximately 130 attendees.
 The presentation highlighted specific actions grantees can take to address identified risks and improve overall operational and financial integrity.
- Through fraud advisories, we kept LSC and grantees informed about risks to their programs or client base. For example, we issued a playbook on the importance of proper board engagement and two advisories describing (1) ten essential defensive measures to help prevent cyberattacks and (2) providing guidance on how to improve oversight of student loan assistance programs.
- In response to the escalation of ransomware, email scams, and other cyberattacks, we continued to update our dedicated OIG website with links to cybersecurity resources for grantees.

We appreciate management's sustained attention to our recommendations, referrals, and insights. Going forward, we will continue working productively with LSC's Board of Directors, Congress, LSC leadership and staff, and grantees to promote program integrity, transparency, and accountability for results. Through our oversight efforts, we help maximize the funds invested in civil legal assistance for low-income Americans.

Sincerely,

Thomas E. Yatsco

Inspector General

September 2025

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Office of the Inspector General Overview

As required by the Inspector General Act,¹ the LSC OIG is fully committed to advancing two principal oversight missions: (1) to promote economy and efficiency in the activities and operations of LSC and its grantees; and (2) to prevent and detect fraud, waste, and abuse.

To achieve our oversight missions, we perform audits, evaluations, and reviews, and conduct criminal, administrative, and regulatory compliance investigations. In conducting our oversight work, we adhere to five core values (shown below). Our independent and objective 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, identify risks, and in the end increase the economy, efficiency, and effectiveness of LSC and its grantees' programs. When we substantiate allegations of fraud, we also work with the appropriate authorities to hold perpetrators accountable.

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, the Board of Directors, and directly to Congress.

The IG reports serious problems to the LSC Board of Directors and must also work with the appropriate law enforcement authorities when, through audit, investigation, or otherwise, the IG finds that there are reasonable grounds to believe a crime has occurred. The IG is required by law to keep Congress fully and currently informed of its activities through semiannual reports and other means.

OMMUNICATION

TEAMWORK

CCOUNTABILITY

INTEGRITY

¹ Inspector General Act of 1978, as amended, 5 USC §§401-424.

Audits

Audit Highlights

April 1, 2025- September 30, 2025

OIG Audit Reports



Audit Reports Issued



5 Recommendations Issued



\$0Questioned Costs



61 Recommendations Closed

Grantee Financial Statement Reviews & IPA Oversight





50 A-50 Findings Referred to LSC

Management

Grantee & IPA Outreach



During this reporting period, the OIG issued three audit advisories focused on improving grantees' reporting and compliance, as well as two audit reports focusing on LSC management: a performance audit over LSC's administration and oversight of the Disaster Grants program and the annual audit of the Corporation's financial statements.

Quality Control Reviews of Grantee IPAs

The OIG has responsibility under federal appropriations law for overseeing the audits performed annually at each grantee by Independent Public Accountants (IPAs). During the reporting period, we reviewed 112 IPA reports, with fiscal year ending dates ranging from September 30, 2024, through January 1, 2025.

We issued 14 QCR reports this period. The goals of the QCR program are to improve the overall quality of the IPA audits and to ensure that all audits are conducted in accordance with applicable standards and the guidance provided by the OIG.

Performance Audit of LSC's Administration and Oversight of Disaster Grants

The OIG contracted with Sikich CPA LLC (Sikich) to conduct a performance audit of LSC's administration and oversight of Disaster Grants. LSC generally issues Disaster Grants when it

receives federally appropriated disaster funds.

Observations

Sikich found that LSC should update, clarify, and finalize its disaster grant guidance. Sikich also found that LSC should provide additional grant training to grantees, including tracking disasterrelated cases and expenditures.

Recommendations

Sikich made five recommendations that focused on strengthening LSC's processes and guidance for administering Disaster Grants. Sikich recommended that LSC implement best practices from the Government Financial Officers Association.

Management's Response

LSC management agreed with three recommendations and partially agreed with two recommendations. LSC management provided proposed actions for all the recommendations and sufficient documentation to close four of the recommendations. The fifth recommendation will remain open until LSC provides additional supporting documentation to demonstrate that they have addressed it.



Audit of the Corporation

The independent public accounting firm, CliftonLarsonAllen (CLA), under contract with and subject to general oversight by the OIG, conducted LSC's FY 2024 financial statement audit. CLA reported that LSC's financial statements fairly presented, in all material respects, the financial position of LSC. The OIG reviewed CLA's work and did not find any instances of noncompliance with generally accepted government auditing standards.

The Independent Auditor's Report on Internal Control over Financial Reporting found that the results of their tests disclosed no deficiencies in internal control that would be considered material weaknesses.

The Independent Auditor's Report on Compliance and Other Matters reported that the results of their tests disclosed no instances of noncompliance or other matters required to be reported under Government Auditing Standards.



Emphasizing the Responsibility to Submit Audited Financial Statements on Time as an LSC Grantee

The OIG issued an Advisory to grantee Executive Directors, their Boards of Directors, and IPAs emphasizing grantees' responsibility to submit timely audited financial statements. Compliance with audit requirements significantly contributes to integrity, accountability, and transparency in the use of LSC funds. LSC grantees must submit audited financial statements annually to the OIG, 120 days after the end of grantees' fiscal years. The Advisory also detailed the sanctions the OIG can recommend that LSC impose in response to late submissions, including withholding or suspending funding until the audit is satisfactorily completed.

Ensuring Independent Public Accounting Firms Conduct Rigorous Annual Audits of LSC Grantees (Advisory)

In August 2025, to promote stronger financial oversight within the LSC grantee community, we issued an Audit Advisory titled, <u>Ensuring Independent Public Accounting Firms Conduct</u>

<u>Rigorous Annual Audits of LSC Grantees – Recommendations Based on Fiscal Years 2023 and 2024</u>

<u>Quality Control Reviews.</u> The Advisory was distributed to all grantee Executive Directors, CFOs, and their respective IPAs and board chairs.

The Advisory highlights two key areas:

- **Summary of QCR Findings** Presents the results of our review of financial statement audits conducted for LSC grantees in fiscal years 2023 and 2024.
- Recommendations for Improved Audits Identifies areas where audit procedures could be strengthened to enhance regulatory compliance as well as the accuracy of future grantee financial statement audits.

Elevating Your Audit: How to Improve Your Review of "Matters" (Audit Bulletin)

In July 2025, the OIG issued a Bulletin titled, <u>Elevating Your Audit – How to Improve Your Review</u> of "Matters" to grantee Executive Directors, CFOs, and IPAs.

The Bulletin emphasized the need for rigorous review of "matters," or non-case activities, such as community education and outreach, during annual financial statement audits.

Statistical Overview



OIG-Conducted Audits

3

Open at beginning of the reporting period

2

Opened during the reporting period 7

Audit reports issued or closed during the reporting period

3

Open at end of the reporting period



Recommendations to LSC Grantees

76

Open at beginning of the reporting period

C

Issued during the reporting period

53

Closed during the reporting period 23

Open at end of the reporting period



Recommendations to LSC Management

11

Open at beginning of the reporting period

5

Issued during the reporting period 8

Closed during the reporting period

8

Open at end of the reporting period

Oversight of Grantee Financial Audits

Independent Audits of Grantees

LSC's annual appropriations acts require each person or entity receiving financial assistance from LSC to be subject to an annual audit by an IPA. Each grantee contracts directly with an IPA to conduct the required audit in accordance with generally accepted government auditing standards and the LSC OIG Audit Guide. The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA audit process.

Desk Reviews of Grantees' Annual Audit Reports: IPA Audit Findings

The OIG conducts desk reviews of IPA reports issued to grantees to identify potential problems or concerns that warrant follow-up by LSC management or by the OIG via audit, investigation, or other review. The audit reports and the findings reflect the work of the IPAs, not the OIG.

During this reporting period, the OIG reviewed 112 IPA audit reports of grantees with fiscal year ending dates from September 30, 2024, through January 31, 2025. The OIG reviewed the findings, and 50 significant ones were referred to LSC management during the period for evaluation and follow-up.

Follow-up Process

LSC's annual appropriation acts require that LSC follow up on significant findings identified by the IPAs, which are reported to LSC'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, unless the deadline is extended. 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 LSC management.

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

The following table presents information on the findings outlined in this section.

<u>Summary of Significant Findings Reported in Grantee Financial Statement</u> <u>Audits with Fiscal Years Ending September 30, 2024 through January 31, 2025</u>

Quality Control Reviews

Under our QCR program, IPA firms performing grantee audits are subject to review to determine whether their work is being conducted in accordance with applicable standards and OIG guidance. The reviews are conducted by a certified public accounting (CPA) firm under contract with the OIG. The contractor also identifies issues that may require further attention or additional audit work by the IPA under review.



QCRs With One or More Exceptions - 12

Met standards with no

exceptions

Met standards with one or more exceptions

0

Did not meet standards

Of the four reports requiring additional work from IPAs, we received and evaluated the work from all four IPAs and found that they were satisfactory; those QCRs are considered closed. During the previous reporting period, we found that three financial statement audits contained deficiencies and required additional work from the IPAs. We received and evaluated that additional work during the current reporting period. The QCRs are considered closed.

Audit and Investigation Joint Projects

Chief Financial Officer Bootcamp Presentation

OIG Investigations and Audit staff participated in LSC's CFO Bootcamp and provided a joint, in-person presentation to approximately 130 grantee CFOs and/or fiscal officers. Covered topics included financial risks identified during OIG audits and investigations, issues associated with insufficient board oversight, cyber threats, contracts and procurement, student loan repayment plans, timely grantee audit submissions, issues found during QCRs, IT vulnerabilities, and unallowable costs. The presentation highlighted specific actions grantees can take to improve overall operational and financial integrity.

Investigations

Investigative Highlights

April 1, 2025 - September 30, 2025

OIG Investigations





18

Cases Closed























OIG Other Preventive Efforts







7
Fraud Awareness Briefings and Presentations

The OIG opened 15 cases during the period. These included 12 investigative cases and three proactive <u>Fraud Prevention Reviews</u> (FPRs). The investigative cases included allegations of theft, unauthorized outside employment, time and attendance fraud, misuse of government funds, impermissible outside practice of law, and other potential violations of LSC statutory and regulatory requirements.

The OIG closed 18 cases during the reporting period. These included 14 investigative cases, three FPRs, and one questioned costs case.

During this reporting period, OIG investigative activity resulted in one guilty plea, two sentencings and two restitutions totaling \$74,972² related to federal program theft and mail fraud. In addition, investigative activity resulted in three recovery actions totaling \$46,175, three referrals to LSC management totaling \$330,941, and an administrative referral related to fiscal mismanagement. In addition, the OIG issued an OIG playbook on Board Oversight and two fraud advisories.

² In this section, numbers have been rounded to the nearest dollar.



Sentencing of Former Grantee Officer

As previously <u>reported</u> in last period's Semiannual Report to Congress, an OIG investigation found that a former Chief Administrative Officer (CAO) employed by an LSC grantee embezzled grantee funds by writing checks to herself and using the company credit card for personal expenses. The former CAO spent the stolen funds on expenses such as travel, a recreational vehicle, dining, dental work, and home décor. Our investigation found that the former CAO illegally converted a total of over \$51,000 to her personal use, including more than \$29,000 in federal funds, and we referred the matter to the U.S Attorney's Office. On January 15, 2025, the former CAO entered a guilty plea to federal program theft. On May 27, 2025, the United States District Court for the Eastern District of Michigan sentenced her to probation for two years. The court ordered restitution of \$25,743, payable to the LSC grantee.

Guilty Plea and Sentencing of Former Grantee Contractor

An OIG investigation found that a former contractor hired by an LSC grantee made numerous false representations within his contract proposal to provide forensic auditing services to a grantee, which were required by LSC. Concerned about potential fraud, LSC management referred this allegation to the OIG. Our resulting investigation determined that there is an estimated loss of at least \$49,000 in LSC funds.

As previously <u>reported</u> in last period's Semiannual Report to Congress, the owner of the auditing company was indicted on two counts of federal mail fraud. On June 6, 2025, the contractor entered a guilty plea to mail fraud. On September 25, 2025, the court sentenced the contractor to time served (39 days in prison) and two years of supervised release; and he was ordered to pay restitution of \$49,229 to the LSC grantee.



Questioned Cost Referral and Recovery - Contracting

An OIG investigation found that, subsequent to his retirement, a grantee Executive Director (ED) received a one-year consulting contract valued at \$153,670. The grantee allocated

\$17,243 in LSC funds to pay the contract. The former ED did not provide documentation to support the monthly payments under the contract. During this reporting period, the OIG referred the issue to LSC management. LSC agreed with OIG's determination, and in June 2025, the grantee reimbursed LSC.³

Recovery – Incentive Pay

An OIG investigation identified \$11,785 in expenses incurred by a grantee's ED related to the purchase of a home and reimbursed via a relocation incentive agreement—using LSC funds. We determined this expense ran counter to LSC Program Letter 24-2, Employee Incentive Payment Guidance, which references OMB regulations, the Uniform Grant Guidance ("UGG") requirements, including 2 C.F.R. § 200.464, Relocation costs of employees. The UGG notes that fees and other costs associated with acquiring a new home are an unallowable cost under Federal awards. It was also potentially unallowable under LSC regulation 45 C.F.R. Part 1630.

On May 6, 2025, the grantee provided the OIG with documentation evidencing the reclassification of \$11,785. The OIG referred the issue to LSC management on June 5, 2025, and on July 22, 2025, LSC management informed the OIG that they agreed with the grantee's decision to reallocate the expense to non-LSC funds.

Recovery Actions – Improper Student Loan Reimbursements

During the reporting period, the OIG referred three cases to LSC involving potential improper student loan reimbursements made to LSC grantee employees; these improper payments all lacked supporting documentation from employees. The referrals include questioned costs related to grantee student loan assistance plans, and recovery referrals related to LSC's Herbert S. Garten Loan Repayment Assistance Program (LRAP).⁴ The recovery actions related to the three cases are summarized in the chart and narratives below.

³ The total amount reimbursed included \$544 unallowable expenses the OIG found; the total grantee check to LSC was \$17,787.

⁴ Noting the emerging fraud and compliance risks related to grantee oversight of their student loan assistance programs, the OIG issued an <u>advisory</u>, detailed in the Fraud Advisory section below, with suggestions for improving grantee oversight of the programs by implementing rigorous policies and procedures.

Case	Grantee St	udent Loan Plan	LSC LRAP	
	OIG Referral Amount	LSC Determination Amount	OIG Referral Amount	LSC Determination Amount
1	\$19,906	\$16,603	\$55,600	Pending
2	\$149,120	Pending	N/A	N/A
3	\$50,621	Pending	\$75,600	Pending

Case 1: Determination on Questioned Cost Referral – Grantee Student Loan Assistance Plan

OIG found that the grantee may have improperly paid twelve employees a total of \$36,601 under their student loan reimbursement plan between 2020 and 2023; \$19,906 of which was funded by LSC. These payments lacked supporting documentation from the employees and appear to violate the grantee's policies as well as 45 C.F.R. Part 1630. As a result, the OIG referred \$19,906 to LSC management for consideration as a questioned cost recovery.

Acting on the OIG referral, LSC initiated questioned cost proceedings under 45 C.F.R. Part 1630. LSC management concluded that \$3,303 was allowable, while \$16,603 should be disallowed. The grantee concurred and reallocated \$16,603 to the LSC funding line from an unrestricted funding source. The OIG last reported on the questioned cost referral in the semiannual report for the period ending September 30, 2024.

Additional Referral – LSC's Loan Repayment Assistance Program

OIG found that three grantee employees who participated in the grantee's student loan reimbursement plan also participated in LSC's LRAP. Those three employees received \$55,600 from LSC's LRAP between 2020 and 2024. The OIG requested LSC review the \$55,600 in LSC LRAP payments to determine whether the three employees met LRAP requirements.

Case 2: Questioned Cost Referral – Grantee Student Loan Assistance Plan

OIG found that an LSC grantee may have improperly paid fifteen employees a total of \$222,901 under their employee student loan assistance program between 2020 and 2024; \$149,120 of which was funded by LSC. These payments lacked supporting documentation and appear to violate grantee's policies as well as 45 C.F.R. Part 1630. OIG referred \$149,120 to LSC management for consideration as a questioned cost recovery.

Case 3: Questioned Cost Referral – Grantee Student Loan Assistance Plan

OIG found that an LSC grantee may have improperly paid 25 employees a total of \$149,623 under their employee student loan assistance program between 2020 and 2024; \$50,621 of

which was funded by LSC. These payments lacked supporting documentation from employees and appear to violate grantee's policies as well as 45 C.F.R. Part 1630. OIG referred \$50,621 to LSC management for consideration as a questioned cost recovery.

Additional Referral – LSC's Loan Repayment Assistance Program

OIG found that six grantee employees who participated in the grantee's student loan reimbursement plan also participated in LSC's LRAP. The employees received \$75,600 from LSC's LRAP between 2020 and 2024. The OIG informed LSC that the six employees appeared to have received improper payments from the grantee's student loan reimbursement plan and requested LSC review the \$75,600 in LSC LRAP payments to determine whether the six employees met LRAP requirements.



Regulatory and Administrative Actions

Referral of Fiscal Management Concerns

An OIG investigation initiated from a Hotline complaint found evidence of possible financial mismanagement at an LSC grantee. The investigation determined that the grantee had a pattern of untimely reconciliation of its client trust accounts and that the grantee prefunded its client trust accounts with approximately \$25,000 of grantee funds. Additionally, the investigation found instances where grantee funds were misallocated due to accounting errors.

The OIG referred the issue to LSC management for review and any action deemed appropriate as LSC conducts its grant monitoring activities.



Fraud Prevention Initiatives

The OIG maintains an active fraud prevention program, engaging in a variety of proactive outreach and educational efforts. We regularly conduct Fraud Awareness Briefings (FABs), and Cybercrimes Awareness Briefings (CABs), and FPRs (see Fraud Prevention Reviews). This period we also issued one OIG playbook on Board Oversight and two fraud advisories to grantees. Fraud advisories are posted on our website.

Fraud Awareness Briefings

FABs are presented by experienced OIG investigative staff and cover a variety of 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.

During this reporting period, the OIG provided three FABs during FPR visits to three LSC grantees and one presentation during LSC's CFO Bootcamp. A recorded FAB is also posted on the OIG website, allowing interested audiences to view the recording at their convenience. We encourage all grantee employees to view the recorded FAB; we believe it is a useful tool to help in preventing and detecting fraud.

Since initiating the FAB program in 2009, we have conducted 191 in-person or remote 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.

Cybercrimes Awareness Briefing

CABs focus on the various types of cyberattacks that have targeted LSC and its grantees since 2018, such as ransomware and business email compromise attacks. The briefing also provides grantees with best practices for preventing and detecting similar cyberattacks and suggestions for responding to cyberattacks.

During this reporting period, we provided three CABs during FPR visits at three LSC grantees. The recorded CAB is also posted on the OIG's Cyber Security Resources webpage. The OIG continues to update its Cyber Security Resources webpage.

Fraud Prevention Reviews

During FPRs, the OIG reviews grantees' grant applications, policies, practices, internal controls, special grant conditions, and compliance with certain LSC regulations and requirements. The FPR aims to identify internal control risks to help grantees prevent fraud. The FPR focuses on fiscal and regulatory areas where the OIG commonly finds potential fraud or misuse of funds,

such as credit card transactions, bank account reconciliations, employee reimbursements, office supply expenses, outside practice of law, subgrants, and other selected areas. FPRs also identify best practices that other grantees could consider adopting. Three FPRs were closed during this reporting period, and two final reports were posted online.

OIG Playbook - Board Engagement

Safeguarding LSC Funds Through Effective Board of Directors Oversight

This reporting period, ⁵ OIG's Office of Investigations, with input from Audit, issued an OIG playbook titled "Safeguarding LSC Funds Through Effective Board of Directors Oversight" to LSC and grantees. The playbook was also posted on the OIG website.

In the playbook, we underscored the importance of Boards of Directors actively engaging as oversight bodies and good stewards of public and donor funds to help prevent fraud, waste, abuse, noncompliance, and mismanagement. In this playbook, we highlighted critical oversight practices Boards could employ in key areas such as "Tone at the Top," general fiscal oversight, required annual audits, business and consulting agreements, conflicts of interest and nepotism, compensation and severance packages, Executive Director expenditures, and compliance with LSC policy and regulatory requirements.

Fraud Advisories

Fraud Advisory Title	Summary
Deter Cyberattacks with 10 Essential Safeguards	 Provided grantees with 10 essential cybersecurity defensive measures such as controlling access to systems and data and conducting regular security reviews. Discussed cyberattack prevention tools and products grantees could consider using.

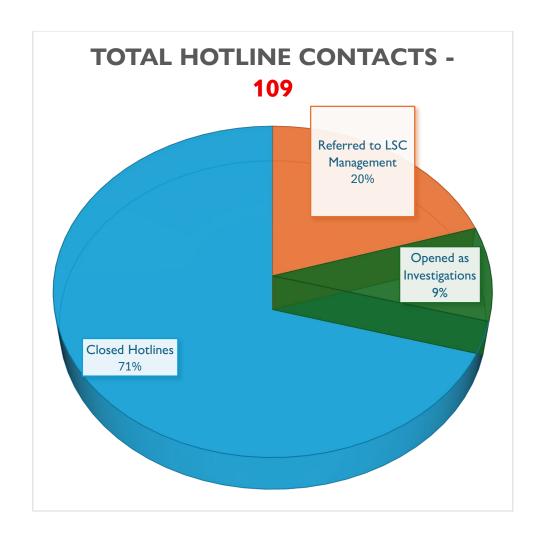
⁵ The OIG Playbook was internally finalized in March 2025, during the prior reporting period, but was not issued until May 6, 2025.

Fraud Advisory Title	Summary
How to Improve Oversight of Student Loan Assistance Programs	 Provided case examples that highlighted control risks due to grantees not obtaining appropriate documentation to support that employees actually made loan payments. Highlighted practices grantees could adopt to improve oversight of their student loan assistance programs such as requiring that employees requesting loan assistance provide documentation supporting that they have existing outstanding student loan debt.

Hotline

The OIG maintains a Hotline for reporting illegal or improper activities involving LSC or its grantees. Information may be provided online or by telephone, fax, email, or regular mail. Upon request, a person's identity will be kept confidential unless disclosure is unavoidable. Reports may also be made anonymously. The Hotline is a powerful tool for combating fraud, waste, and abuse.

During this reporting period, the OIG received 109 Hotline contacts. Of these matters, we referred 22 to LSC management for follow-up, opened ten as investigations, and closed the remaining 77.



Click the button below to contact the hotline:



Statistical Summary⁶



Investigative Cases

27

15

18

24

32

Open at beginning of the reporting period

Opened during the reporting period

Closed during the reporting period Open at the end of the reporting period

Investigative reports issued

Prosecutorial Activities	
Persons referred to DOJ for criminal prosecution	2
Persons referred to state or local prosecuting authorities for criminal prosecution	1
Arrests or Criminal Complaints	0
Indictments/Informations	0
Convictions	1

Investigative Activities	
Inspector General subpoenas issued	3

Monetary Results			
Recoveries/Restitutions	\$121,147		
Fines/Fees	\$200		
Referrals to LSC Management for Recovery Consideration	\$330,941		

⁶ Data reflected in the statistical summary were compiled based on direct counts.

Appendix – Peer Reviews

The following information is provided pursuant to the requirements of section 405(a) of the Inspector General Act of 1978, as amended, 5 U.S.C. §405(a)(8)(A) and (B).

The last peer review of the OIG was conducted by the Federal Housing Finance Agency Office of Inspector General. Its report was issued on September 26, 2023. We received a rating of "pass." Under Council of the Inspectors General on Integrity and Efficiency guidelines, this is the highest rating possible.

Table I

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

Report Title	Date Issued	Recommendation Number	Recommendation ⁷	Comments
Northwest Justice Project	7/8/2024	8	Develop and implement a process for tagging capitalized property and equipment.	Corrective action in process. Once satisfactorily completed, the OIG will close the recommendation.
Northwest Justice Project	7/8/2024	9	Conduct a physical inventory of capitalized property and equipment as soon as possible, document the results, and do so at least every two years.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Northwest Justice Project	7/8/2024	14	Document the complete cost allocation process including the adjustments made to arrive at the final allocations for indirect costs.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Northwest Justice Project	7/8/2024	18	Develop policies to ensure the timely disposition of outstanding checks.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Performance Audit of the Legal Services Corporation's Oversight of its Interest in Grantees' Real Property	11/4/2024	1	Review and inventory its own records and work with grantees to develop a definitive and authoritative record of LSC-funded real property and supporting documents that is complete, accurate and consistently updated.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.

⁷ There are no qualified potential cost savings associated with these open recommendations.

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

Report Title	Date Issued	Recommendation Number	Recommendation ⁸	Comments
Performance Audit of the Legal Services Corporation's Oversight of its Interest in Grantees' Real Property	11/4/2024	2	Compile a comprehensive list of LSC-funded real property for which no property interest agreements can be located and execute property interest agreements if necessary.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Performance Audit of the Legal Services Corporation's Oversight of its Interest in Grantees' Real Property	11/4/2024	3	Implement the GrantEase real property module and use it as a tool to reconcile grantees' LSC-funded real property and supporting documents with OCE's records on an annual basis as part of the FSRM financial statement review.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Performance Audit of the Legal Services Corporation's Oversight of its Interest in Grantees' Real Property	11/4/2024	6	Require that grantees with inaccurate annual LSC-funded real property accountings work with their auditors to correct errors and certify to LSC that the errors have been corrected in the next fiscal year.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Performance Audit of the Legal Services Corporation's Oversight of its Interest in Grantees' Real Property	11/4/2024	9	Review existing property interest agreements for all LSC-funded properties to assess whether the agreement conditions (i) identify the applicable requirements of 45 C.F.R. Part 1631 and (ii) include language to ensure that the parties include the cost of LSC-funded capital improvements when determining LSC's interest in proceeds from disposition.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.

⁸ There are no qualified potential cost savings associated with these open recommendations.

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

Report Title	Date Issued	Recommendation Number	Recommendation ⁹	Comments
Performance Audit of the Legal Services Corporation's Oversight of its Interest in Grantees' Real Property	11/4/2024	10	Issue guidance and negotiate with LSC grantees, if necessary, to amend existing property interest agreements, to ensure the agreements include the requirements of 45 C.F.R. Part 1631 and that LSC's interest in real property related to LSC's investment in capital improvements is protected.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Performance Audit of the Legal Services Corporation's Oversight of its Interest in Grantees' Real Property	11/4/2024	11	Work with grantees without property interest agreements to identify LSC-funded capital improvement costs and assess whether the parties should negotiate agreements to protect LSC's interest in properties that the grantees did not initially acquire with LSC funds.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
DNA - People's Legal Services, Inc.	12/2/2024	24	Update the DNA Accounting Manual to include a section on costs that are unallowable per LSC regulations, including how to identify and address unallowable costs.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
DNA - People's Legal Services, Inc.	12/2/2024	26	Update the DNA Accounting Manual to assign bank reconciliation duties ensuring segregation of duties so employees who initiate or transmit electronic transactions, have no access to cash, are not check signers, and have no bookkeeping duties.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.

⁹ There are no qualified potential cost savings associated with these open recommendations.

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

Report Title	Date Issued	Recommendation Number	Recommendation ¹⁰	Comments
DNA - People's Legal Services, Inc.	12/2/2024	29	Implement procedures to ensure that bank reconciliations are signed and dated on the date the reconciliation was performed and the bank reconciliation review was performed and documented.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
DNA - People's Legal Services, Inc.	12/2/202 4	31	Discuss with the DNA Board of Directors whether DNA should maintain petty cash funds or implement a Purchase Card to replace petty cash funds.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Southern Arizona Legal Aid	12/9/2024	7	Develop detailed review procedures and/or checklists to be used in oversight reviews of records created to support accounting entries and/or compliance assessments.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	1	Perform a review of the Incurred Costs Grant budget application and timekeeping records related to the disasters from 2020 and 2021 to identify the actual hours worked and corresponding costs for case time and administrative leave hours for office closures. The review should clearly distinguish between distinct categories of hours, including actual case/matter/supporting activity hours and leave.	The OIG disagreed with the grantee's comments regarding this recommendation and associated questioned costs and referred them to LSC. LSC management is working with the grantee to resolve this recommendation and will notify OIG upon completion.

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 $^{^{\}rm 10}$ There are no qualified potential cost savings associated with these open recommendations.

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

Report Title	Date Issued	Recommendation Number	Recommendation ¹¹	Comments
Lone Star Legal Aid	3/4/2025	2	Implement a procedure to ensure that all relevant information, including the dates of office closures, offices impacted or closed, and staff on administrative leave due to disasters Hurricane Laura and Winter Storm Uri are adequately documented; and do so each time such actions are taken in response to future disasters.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	3	Revise LSLA's contracting policy to require recompeting recurring purchases and long- standing contracts every three to five years.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	4	Implement a process to ensure LSLA follows its procurement policy. This includes documenting bids for all applicable purchases. Additionally, sole-source justifications should be documented and approved.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	5	Implement a process to ensure unauthorized personnel do not enter into contracts on behalf of LSLA. Alternatively, if LSLA decides that it would be beneficial to allow more flexibility in contract approval authority, this should be formalized in the written policies and any deviations from the written policies should be adequately documented and approved.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.

¹¹ There are no qualified potential cost savings associated with these open recommendations.

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

Report Title	Date Issued	Recommendation Number	Recommendation ¹²	Comments
Lone Star Legal Aid	3/4/2025	6	Ensure LSLA's written cost allocation policies are updated to fully align with LSC requirements. Subjective adjustments should be minimized, and the considerations resulting in those adjustments should be formalized in the policies.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	7	Update LSLA's cost allocation methodology to ensure unrestricted funds are equitably included as a source to pay for indirect costs.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	8	Ensure LSLA allocates the maximum allowable indirect costs to all funding sources, as per LSC guidance.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	9	Update the LSLA Accounting Manual to include policies and procedures surrounding card usage, statement reviews, payment processes and the credit card reconciliation process.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	10	Establish explicit written policies and procedures for board travel reimbursement policies. In addition, the policies should stipulate when per diem allowance limits can be overridden as well as the required documentation of review and approval.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.

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¹² There are no qualified potential cost savings associated with these open recommendations.

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

Report Title	Date Issued	Recommendation Number	Recommendation ¹³	Comments
Lone Star Legal Aid	3/4/2025	11	Revise LSLA's written policies to include the following details: • Timeline for preparing management reports • Identification of known commitments • Contents of the income and expense report • Support of projections by schedules that document assumptions used to arrive at	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
			final projected amounts Budget constructions from cost centers Format of management reports Preparation of a budget to actual report or similar report containing the required information	
Lone Star Legal Aid	3/4/2025	12	Implement a process to document management's review of monthly reports. This should include a signature and date to denote the review and ensure compliance with LSC's Financial Guide.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.
Lone Star Legal Aid	3/4/2025	13	Update the LSLA Accounting Manual to include policies for reconciling labor costs with timekeeping records, and to ensure that paid time off is allocated proportionally based on hours worked across different funding sources.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.

 13 There are no qualified potential cost savings associated with these open recommendations.

Recommendations Made Before This Reporting Period for Which Corrective Action Has Not Been Completed

Report Title	Date Issued	Recommendation Number	Recommendation ¹⁴	Comments
Lone Star Legal Aid	3/4/2025	14	Ensure LSLA's written policies reflect the actual practices in place and comply with the applicable legal requirements for unclaimed client funds.	Corrective action in process. Once satisfactorily completed, the OIG will close recommendation.

¹⁴ There are no qualified potential cost savings associated with these open recommendations.

Table II

Audit Reports and Other Reports Issued During Reporting Period Part A: Audit Reports

Report Title	Date Issued	Questioned Costs	Funds Put to Better Use	Unsupported Costs	Management Decision Made by End of Reporting Period
LSC 2024 Fiscal Year Audit of the Corporation	5/20/2025	\$0	\$0	\$0	N/A
Performance Audit of the Legal Services Corporation's (LSC) Administration and Oversight of Disaster Grants	7/28/2025	\$0	\$0	\$0	N/A

Part B: Other Reports

Report Title	Date Issued	Description
Elevating Your Audit - How to Improve Your Review of "Matters"	7/29/2025	This OIG Bulletin emphasizes the need for rigorous review of noncase activities, such as community education and outreach, during annual financial statement audits.
Ensuring Independent Public Accounting Firms Conduct Rigorous Annual Audits of LSC Grantees – Recommendations Based on Fiscal Years 2023 and 2024 Quality Control Reviews	8/25/2025	This audit advisory promotes stronger financial oversight within the LSC grantee community by highlighting key QCR findings and recommendations.
Emphasizing the Responsibility to Submit Audited Financial Statements on Time as an LSC Grantee	8/27/2025	This advisory emphasizes grantees' statutory responsibility to submit timely audited financial statements (AFS) and detailing sanctions available to LSC for untimely AFS submissions.

Table III

Audit Reports Issued During a Prior Reporting Period for Which a Management Decision was Made During the Reporting Period

Report Title	Date Issued	Questioned Costs	Funds Put to Better Use	Unsupported Costs	Comment
Southern Arizona Legal Aid	12/9/2024	\$48,887.00	N/A	N/A	LSC management closed the OIG questioned costs referral and disallowed the full amount. This sufficiently addressed the referral.
Northwest Justice Project	7/8/2024	\$43,086.00	N/A	N/A	LSC management closed the OIG referral for Recommendations 1 and 3 and disallowed the full amount of questioned costs. This sufficiently addressed the referrals.

Audit Reports Issued During a Prior Reporting Period for Which a Management Decision was Made During the Reporting Period

Report Title	Date Issued	Questioned Costs	Funds Put to Better Use	Unsupported Costs	Comment
DNA - People's Legal Services, Inc.	12/2/202 4	\$2,574 ¹⁵	N/A	N/A	LSC management sent a memo on August 28, 2025 addressing the OIG referral for Recommendations 14, 15,16, 34, 37, and 38. The OIG concluded that LSC management's actions sufficiently addressed the recommendation referrals. The OIG is still reviewing LSC management's response to the referred Other Matter and questioned costs.

 $^{^{\}rm 15}$ OIG is reviewing OCE's closure memo dated August 28, 2025.

Table IV

Audit Reports Issued During Prior Reporting Periods with Unresolved Questioned Costs as of the End of the Reporting Period

Report Title	Date of Issuance	Questioned Costs	Unsupported Costs
DNA - People's Legal Services, Inc.	12/2/2024	\$2,574 ¹⁶	N/A
Lone Star Legal Aid	3/4/2025	\$438,032.00	N/A

 $^{^{\}rm 16}$ OIG is reviewing OCE's closure memo dated August 28, 2025.

Table V

Index to Reporting Requirements of the Inspector General Act

IG Act Reference*	Reporting Requirement	Page
Section 404(a)(2)	Review of and recommendations regarding legislation and regulations.	None
Section 405(a)(1)	Significant problems, abuses, and deficiencies; recommendations for corrective action.	2- 3,11- 14
Section 405(a)(2)	Recommendations made before the reporting period for which corrective action has not been completed.	21-28
Section 405(a)(3)	Significant investigations closed during the period.	10
Section 405(a)(4)	Number of convictions during the period resulting from investigations.	19
Section 405(a)(5)	Information on audit and other reports: questioned costs, unsupported costs, funds to be put to better use, and if management decision made.	29
Section 405(a)(6)	Information on management decisions during period re reports issued during prior period.	30-31
Section 405(a)(7)	Information per FFMIA §804(b).	None
Section 405(a)(8)-(10)	Information regarding peer reviews.	20
Section 4 0 5(a)(11)-(12)	Statistical table showing numbers of investigative reports, persons referred for prosecution, and indictments/information resulting from prior referrals.	19
Section 405(a)(13)	Investigations involving senior employees where allegations of misconduct are substantiated.	None
Section 405(a)(14)	Instances of whistleblower retaliation.	None
Section 405(a)(15)	Attempts by the establishment to interfere with OIG independence.	None
Section 405(a)(16)	Specified matters closed and not disclosed to the public.	None

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



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