

LEGAL SERVICES CORPORATION



Office of Inspector General

Semiannual Report to the Congress
October 1, 2022 – March 31, 2023

OFFICE OF INSPECTOR GENERAL
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for Equal Justice
LEGAL SERVICES CORPORATION

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

A MESSAGE FROM THE ACTING 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, 2022, through March 31, 2023.

During this reporting period our audit office issued 11 reports, covering diverse subject areas. We issued two audit reports focusing on the adequacy of LSC grantees' internal controls, particularly with respect to financial operations. The reports identified specific internal control weaknesses as well as opportunities for improvement and made corresponding recommendations.

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

Through our Quality Control Review (QCR) program we provided enhanced oversight of the independent audits required annually of LSC grantees. During the period we issued 22 QCRs.

We have launched multiple initiatives to assist grantees in combating cyber threats. We issued eight reports under our ongoing information technology vulnerability assessment program. We believe this program provides a significant benefit to grantees, helping to identify and correct issues that could compromise their information systems.

Our investigations office opened 13 new cases and closed 17 cases during the reporting period. The investigations involved a variety of criminal and regulatory matters, including theft, fraud, misuse of government funds, impermissible outside employment, and other potential violations of LSC statutes and regulations.

We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. Through fraud alerts, online articles, and special advisories, we work to keep grantees well-informed about current risks to their programs, and provide practical information on how to prevent, detect, or respond to such threats.

In response to the high incidence of ransomware, phishing, and other cyberattacks, we maintain a dedicated OIG webpage with links to cybersecurity resources for grantees. We presented two Cybercrimes Awareness Briefings during the period and have a recorded briefing available on the webpage. This period we issued a Hotline Advisory focused on ransomware threats. We also provide information on our website specifically relating to COVID-19 scams.

We have continued conducting fraud awareness briefings and vulnerability assessments. This period, we also completed special assessments focused on CARES Act funding and disaster relief emergency grants.

I would like to close with some personal notes. The Board of Directors recently announced the appointment of Thomas (Tom) Yatsco as LSC's new Inspector General. I join with all the members of the OIG in extending a very warm welcome to Tom.

I am deeply grateful to everyone on the OIG staff for the dedicated and professional manner in which they have performed throughout this period of transition. Their commitment to excellence and unfailingly collegial approach both to our work and to one another has made it a genuine privilege for me to serve as Acting IG.

I also wish to express my sincere appreciation to the members of the Board of Directors for the support they have shown for the work of the OIG, and to me personally as Acting IG.

Finally, on behalf of all the staff of the OIG, we are grateful to the Congress for its continuing support of this office.

Sincerely,



Roxanne Caruso
Acting Inspector General
April 21, 2023

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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) 2023 appropriation (exclusive of OIG operations) is \$554.3 million. LSC received an additional \$20 million in disaster-aid funding in FY 2023 to respond to the federally declared natural disasters of 2022. Congress previously appropriated a total of \$40 million in disaster-aid funding for disasters in 2020 and 2021, as well as \$50 million through supplemental CARES Act funding in FY 2020. The Corporation provides funding to 131 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 11 reports: a special compendium report summarizing the findings and recommendations of our internal control audits of grantees over a two-year period, two internal control audit reports with respect to grantee operations, and eight reports as part of our vulnerability assessment program for grantees' IT networks. Summaries of the reports are provided below. All reports, except the grantee IT vulnerability assessments, are available on the OIG website. The grantee IT vulnerability assessment reports were issued only to the grantees due to the sensitive information contained therein. At the conclusion of the period, we had four 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 20 IPA reports, with fiscal year ending dates ranging from December 31, 2021, through September 30, 2022.

We issued 22 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 the guidance provided by the OIG.

Compendium Report

In December 2022, the OIG issued its fourth special compendium report, providing a summary and analysis of the findings and recommendations contained in our internal control audit reports issued from October 1, 2019, through September 30, 2021. Our objective was to consolidate the results of those reports to provide insight into the content and frequency of findings and recommendations to help LSC and grantee management better recognize and respond to recurring problems. The report also compared findings and recommendations issued during the period to those of the prior compendium report, which summarized the findings and recommendations from audits issued from October 1, 2017, through September 30, 2019.

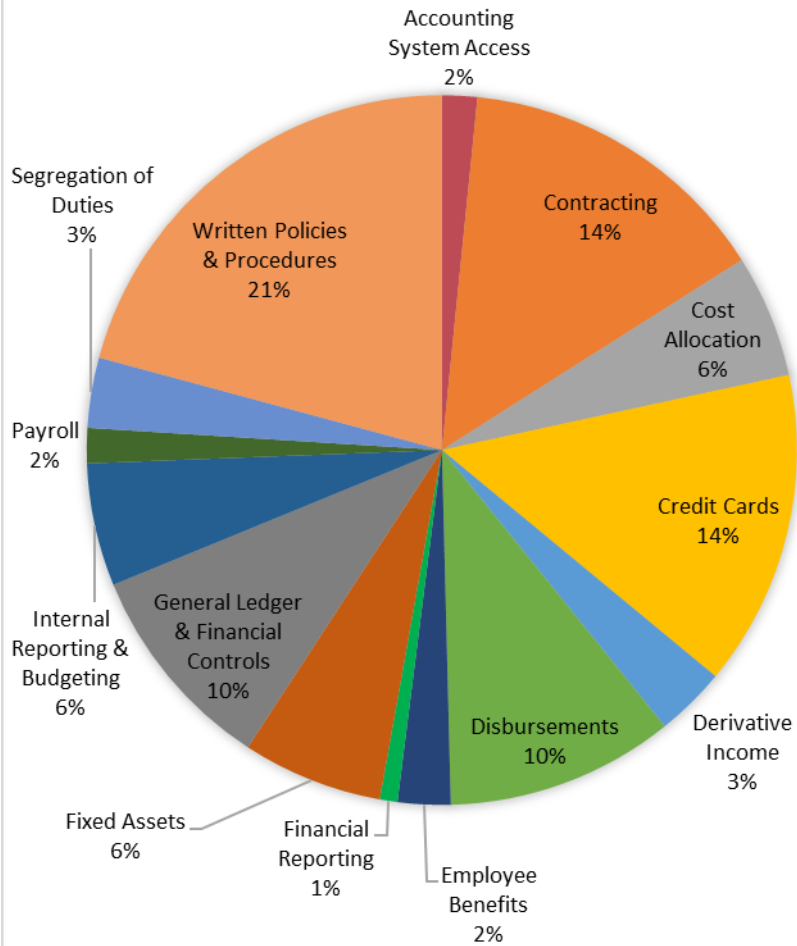
During the two-year period, the OIG issued nine internal control audits containing 197 recommendations to improve internal controls at LSC grantees. The report categorized the recommendations into 14 topic areas. A majority of the recommendations addressed issues pertaining to credit cards, general ledger and financial controls, disbursements, contracting, and payroll. Other recommendations related to fixed assets, cost allocation, written policies and procedures, program integrity, internal reporting and budgeting, derivative income, employee benefits, vehicles, and client trust funds.

This latest review disclosed that credit cards and general ledger and financial controls were the two most prevalent areas needing improvement. This contrasted with previous compendium reports, where we found the majority of findings and recommendations were

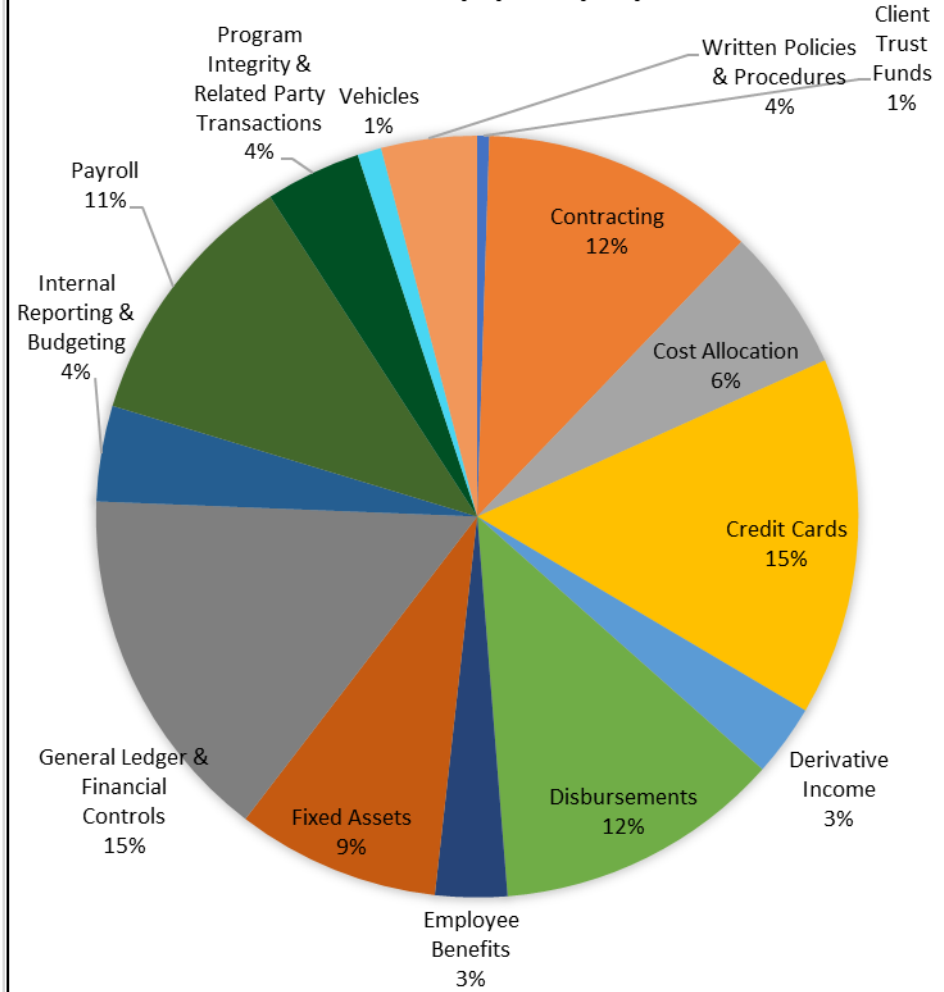
issued for deficient written policies and procedures. Payroll findings also emerged as a more significant issue during this reporting period, while written policies and procedures-related findings saw a sharp decrease. There were several areas, including vehicles and client trust funds, for which findings were reported for the first time during this period.

The following charts present the results of our analysis of findings and recommendations issued during this period, October 1, 2019, through September 30, 2021, in comparison to the previous reporting period, October 1, 2017, through September 30, 2019.

Percentage of Recommendations from Reports Issued 10/1/17-9/30/19



Percentage of Recommendations from Reports Issued 10/1/19-9/30/21



Texas RioGrande Legal Aid, Inc.

The OIG assessed the adequacy of selected internal controls in place at Texas RioGrande Legal Aid, Inc. (TRLA). The audit work was conducted remotely due to safety concerns related to the COVID-19 pandemic. While many 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 21 reportable findings in which improvements were needed. There were two findings related to cost allocation; seven findings related to credit cards; three findings related to contracting; three findings related to general ledger and financial controls; three findings related to management reporting and budgeting; two findings related to employee benefits; and one finding related to disbursements.

Most findings resulted from inadequate recordkeeping and maintenance of documentation, lack of review and approvals, a lack of appropriate segregation of duties, and lack of adherence to written policies and procedures that conform to the Fundamental Criteria of the LSC Accounting Guide.

Recommendations

The OIG made 29 recommendations, primarily involving the need to ensure adequate maintenance of documentation and recordkeeping. Recommendations also involved the need for the grantee to segregate the accounting staff's duties in a manner appropriate to their job responsibilities, update the grantee's accounting manual to conform with the Fundamental Criteria of the LSC Accounting Guide, and ensure their documented practices align with the procedures that are in place.

The grantee agreed with 24 recommendations, partially agreed with three recommendations, and disagreed with two recommendations.

TRLA's proposed actions for nine recommendations were considered fully responsive and we considered these recommendations closed.

The proposed actions for 15 recommendations were considered responsive. These included one recommendation that the grantee had disagreed with, however their comments and proposed actions were still responsive. These recommendations will remain open until the OIG is notified in writing that the proposed actions have been addressed and we are provided with related supporting documentation.

The remaining five recommendations, including the other recommendation that the grantee disagreed with, were considered partially responsive and will remain open until the OIG is notified in writing that the proposed actions have been addressed and we are provided with related supporting documentation.

Land of Lincoln Legal Aid, Inc.

The OIG assessed the adequacy of selected internal controls in place at Land of Lincoln Legal Aid, Inc. (LOLLA). The audit work was conducted remotely due to safety concerns related to the COVID-19 pandemic. While many 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 16 findings. There were five findings related to general ledger and financial controls; three related to fixed assets; three related to credit cards; one related to management reporting and budgeting; one related to contracting; one related to derivative income; and two related to client trust funds. We did not identify any questioned costs.

Most findings resulted from inadequate recordkeeping, including missing documentation of review and approvals; policies noncompliant with the LSC Accounting Guide; sudden changes to grantee operations brought on by the COVID-19 pandemic; and a lack of segregation of duties.

Recommendations

The OIG made 18 recommendations, primarily aimed at ensuring adequate documentation of approvals and recordkeeping. Recommendations also included updating the grantee's policies to conform with LSC guidance, and to provide for appropriate segregation of duties.

LOLLA management agreed with 16 recommendations and partially agreed with two.

The proposed actions for 13 recommendations were considered responsive; the proposed action for one recommendation was considered partially responsive. These 14 recommendations will remain open until LOLLA provides a fully responsive action for the partially responsive recommendation, notifies the OIG in writing that all proposed actions have been taken, and provides appropriate supporting documentation. We considered LOLLA's actions for the four other recommendations as fully responsive and considered those recommendations closed.

Grantee Computer Networks Information Technology Vulnerability Assessments

We continued a program, begun in 2016, of conducting Information Technology Vulnerability Assessments of grantees' computer networks. Working with a specialized contractor, assessments were performed on eight grantee systems. The scans tested for potential vulnerabilities in the system architecture, technologies, and processes from within and outside of the grantee networks. Each grantee received a report that included detailed findings and recommendations to remediate vulnerabilities.¹

¹ Due to the sensitive information contained in the reports they were issued only to the grantees, and not posted to the OIG website.

Statistical Summary

Audits

Open at beginning of reporting period	5
Opened during the reporting period.....	2
Audit reports issued or closed during reporting period	3
Open at end of reporting period.....	4

Recommendations to LSC Grantees

Pending at beginning of reporting period.....	9
Issued during reporting period.....	47
Closed during reporting period	17
Pending at end of reporting period	39

Recommendations to LSC Management

Pending at beginning of reporting period.....	3
Issued during reporting period.....	0
Closed during reporting period	0
Pending at end of reporting period	3

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 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' actions were responsive and appropriate.

Quality Control Reviews

Under our Quality Control Review (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 with the instructions issued by our office. 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.

During this reporting period, we conducted 22 QCRs of LSC grantees' audited financial statements.

The QCRs found that eight of the financial statement audits met standards with no exceptions. Thirteen of the audits met standards with one or more exceptions, nine of which required the IPAs to perform additional work and provide documentation to support their conclusions. Three of the IPAs provided the additional work and documentation which we evaluated and accepted. One of the IPAs provided additional work that did not fully address all recommendations and we requested additional information. That information is not yet due to the OIG. The additional work performed by the other five

IPAs is not yet due to the OIG. For the other four financial statement audits that met standards with one or more exceptions, we issued recommendations to the IPAs to implement in future audits of grantees.

One QCR conducted during the reporting period found that a grantee's financial statement audit did not meet standards. The OIG issued a notice to the IPA requiring them to perform corrective action and provide additional information to address the deficiencies. The additional work is currently under review by the OIG.

During previous reporting periods, we found that five financial statement audits contained deficiencies and required additional work from the IPAs. We issued notices to the IPAs requiring them to perform corrective action and to provide additional information to address the deficiencies. We received additional work during this reporting period for each of these audits. We evaluated the additional work performed and closed out all five QCRs.

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

The following is 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 20 IPA audits of grantees with fiscal year ending dates from December 31, 2021, through September 30, 2022. These audit reports contained 40 findings. The OIG reviewed the findings and determined that 24 were not significant, or that corrective action had already been completed. The remaining 16 findings were referred to LSC management during the period for follow-up.

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

Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2021, through September 30, 2022

<u>Category</u>	<u>Number of Findings</u>
Financial Transactions and Reporting	7
Missing Documentation	6
Policies and Procedures/Other	3
Timekeeping	0
Segregation of Duties	0
TOTAL.....	16

INVESTIGATIONS

During this reporting period, OIG investigative activity resulted in one criminal complaint and one questioned cost referral.

The OIG opened 13 cases during the period. These included seven investigative cases, one Regulatory Vulnerability Assessment, and five Fraud Vulnerability Assessments. The investigative cases included allegations of theft, contract and procurement fraud, time and attendance fraud, misuse of government funds, impermissible outside practice of law, and other potential violations of LSC statutes and regulations.

The OIG closed 17 cases during the reporting period. These included eight investigative cases, one questioned cost case, three Regulatory Vulnerability Assessments, and five Fraud Vulnerability Assessments. The OIG also issued four fraud prevention advisories and updated the OIG cyber security resources webpage for grantees.

Criminal Proceedings

Criminal Complaint Filed Against Former Grantee Officer

An OIG investigation found that a former Chief Administrative Officer employed by an LSC grantee embezzled grantee funds by writing checks to herself and using the company credit card for personal expenses. The former Chief Administrative Officer spent the stolen funds on expenses such as travel, a recreational vehicle, dining, dental work, and home décor.

The former officer submitted fraudulent reimbursement requests to the grantee for payment. She also used her access to the grantee case management system to alter a senior citizen client's last will and testament in order to make herself the primary beneficiary, which would have allowed her to inherit the decedent's property, including the proceeds from the sale of his primary residence.

Our investigation found that the former Chief Administrative Officer illegally converted a total of over \$51,000 to her personal use, including more than \$29,000 in federal funds. Her fraudulent changes to the client's will, had they not been detected, could have resulted in her improperly receiving substantial funds from his estate.

As a result of the OIG's investigation, a referral was made to the U.S Attorney's Office. On December 16, 2022, a criminal complaint was filed charging the former Chief Administrative Officer with theft from a program receiving Federal funds, theft of public funds, and wire fraud.

Recovery Actions

Questioned Cost Referral Regarding Credit Card Purchases and Payments

An OIG investigation found potentially questionable purchases were made by a former grantee Executive Director using LSC funds. The questionable purchases and payments included a contract with a possible conflict of interest; meals, food, and other items for staff celebrations and attributed to “staff morale”; office décor; items with no receipt or business purpose; and credit card fees.

As a result, the OIG referred the questionable purchases and payments totaling \$10,517.26 to LSC management for consideration of a questioned cost recovery.

Questioned Cost Determination – Local Meals and Promotional Items

As a result of an OIG Fraud Vulnerability Assessment, previously reported in our October 2022 Semiannual Report to Congress, the OIG identified potentially unallowable purchases at a grantee. The OIG found that for a number of years the grantee used LSC funds to purchase local meals for purposes such as working lunches and staff appreciation events, in an amount totaling \$3,047. The OIG referred this amount to LSC management for consideration of a questioned costs recovery.

In addition, the OIG identified additional purchases related to promotional items for client outreach in the amount of \$3,130. These purchases were referred to LSC for review to determine if additional guidance to grantees is required on purchases of promotional items for client outreach.

LSC management determined that \$797 of the local meal purchases were allowable and made a final decision to disallow \$2,250 of the \$3,047. In addition, LSC management determined that the promotional items totaling \$3,130 were allowable because the items purchased were for use at outreach events to promote the delivery of legal services and were determined to be allowable under 45 C.F.R. § 1630.5(b).

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 have been 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 their operations and to LSC funds.

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.

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, including recent cyber fraud attacks, that have resulted in significant losses.

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 174 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.

A recorded FAB is also posted on the OIG website, allowing interested audiences to view the recording at their convenience. During this reporting period, the OIG used the recorded FAB during two remote FVA and RVA visits. We encourage all grantee employees to view the recorded FAB and hope they find it a useful tool to help in preventing and detecting fraud. We also send emails to all new executive directors, fiscal officers, and board chairs, inviting them to view the FAB and providing them with a direct link to the recording.

Cybercrimes Awareness Briefing

We have recorded a Cybercrimes Awareness Briefing and posted it on the OIG website. The presentation focuses on the various types of cybercrimes that have targeted LSC and its grantees since 2018. The briefing also provides grantees with best practices for preventing and detecting similar cyberattacks and suggestions for responding to cyberattacks. We also encourage grantees to provide the briefing to their employees as part of a cybercrime training and prevention initiative.

During this reporting period, we provided two remote Cybercrimes Awareness Briefings to two grantees.

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.

Five FVAs were closed during this reporting period. These included two of our typical FVAs and three specially focused fraud assessments, described below.

Disaster Relief Emergency Grants

Since 2018, LSC has awarded Disaster Relief Emergency Grants to grantees for providing services to survivors of government-declared emergencies and to coordinate preparation efforts for future natural disasters. OIG reviews of grantee disaster funding help determine whether grantee policies are adequately protecting and properly accounting for disaster relief funds.

One Disaster Relief Emergency Grant assessment was closed during this reporting period.

CARES Act Funds

In 2020, LSC distributed \$49.5 million of federal CARES Act funds to grantees for preventing, preparing, and responding to the coronavirus. LSC provided the CARES Act funds to grantees through COVID-19 Response Grants and Telework Capacity Building Grants.

During this reporting period, the OIG continued to conduct assessments on the use of CARES Act funds by grantees. The assessments determine whether a grantee's policies are adequately protecting and properly accounting for the funds and are ensuring compliance with the terms and conditions of the grants, as well as with LSC regulations.

Two CARES Act funds assessments 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.

Three RVAs were closed during this reporting period.

Cyber Security Webpage Update

In response to the increase in cyber threats targeting LSC grantee programs, the OIG continues to update its Cyber Security Resources webpage. The webpage includes links to resources produced by the OIG that inform grantees of pending cyber threats. The resources aim to assist grantees in preventing, detecting, and reporting cyber threats in order to mitigate potential harm to their programs. The webpage can be found through the Cyber Security Resource button that appears on every page of the OIG website.

Fraud Alert on Client Diversion

A fraud alert was issued to all grantee executive directors and board chairs highlighting a recent OIG investigation that led to the prosecution of two former grantee paralegals in connection with a fraudulent scheme involving the diversion of legal services clients. Client diversion occurs when a grantee employee, contractor, or volunteer diverts clients seeking free legal assistance from the grantee to themselves or an associate for personal profit.

In addition to providing details related to the fraud scheme and examples of other client diversion schemes, the article also explained specific LSC regulations and requirements that serve to assist grantees with preventing client diversion. In addition, the article provided a number of best practices related to cybersecurity that also promote prevention and detection of client diversion.

"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 two new articles: "Protecting Personally Identifiable Information (PII)" and "Complying with LSC Banking and Investment Guidelines."

In the “Protecting Personally Identifiable Information (PII)” article, we provided grantees with guidance to help enhance the security of electronically shared PII of employees and clients and better protect it from external and internal cyber threats. The article explained specific LSC requirements and guidance related to PII and informed grantees of resources available from the Federal Trade Commission and the Cybersecurity and Infrastructure Security Agency (CISA) on PII. We provided links, including to a CISA fact sheet giving information and guidance on implementing physical security and cybersecurity best practices and creating a cyber incident response plan for data breach incidents.

In the “Complying with LSC Banking and Investment Guidelines” article, due to recent bank failures, we reminded grantees of LSC requirements related to banking and investments. The article outlined steps that could be taken if either grantee funds on deposit exceed the Federal Deposit Insurance Corporation’s (FDIC’s) \$250,000 deposit insurance limit or the grantees are not in compliance with LSC guidelines.

Hotline Advisories

Hotline advisories are email notifications intended to quickly warn grantees about incidents reported to our OIG Hotline. This reporting period we sent one Hotline advisory email to grantees: “StopRansomware.gov – Ransomware Threat Resource.”

In this advisory, we notified grantees of a U.S. Government resource and initiative to protect American businesses and communities from ransomware attacks, StopRansomware.gov. The website includes resources and content from several government agencies, including CISA and the Federal Bureau of Investigation (FBI). The OIG provided grantees with links to content on the website such as “General Information – Ransomware 101” and “How Can I Protect Against Ransomware?”

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 person’s identity will be kept confidential. Reports may also be made anonymously.

During this reporting period, the OIG received 94 Hotline contacts. Of these matters, 16 were referred to LSC management for follow-up, six were opened as investigations, one was referred to the Council of the Inspectors General on Integrity and Efficiency (CIGIE), and the remaining 71 were closed.

Statistical Summary²

Investigative Cases

Open at the beginning of period	22
Opened during period	13
Closed during period	17
Open at the end of period	18
Investigative reports issued.....	23

Prosecutorial Activities

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

Investigative Activities

Inspector General subpoenas issued.....	3
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Monetary Results

Questioned Cost Recovery	\$2,250
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Referrals to LSC Management for Recovery Consideration

Questioned Cost Referral	\$10,517
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² Data reflected in the statistical summary were compiled based on direct counts.

OTHER OIG ACTIVITIES

Legislative, Regulatory, and Policy Reviews

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

Freedom of Information Act

The OIG is committed to complying fully with the requirements of the Freedom of Information Act (FOIA). During this reporting period the OIG received three FOIA requests. One was directed to the OIG alone and was responded to within the requisite time frame. The other two were directed both to the OIG and LSC management; as the OIG did not have responsive documents, management agreed to note that in their response.

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 as other inter-agency and professional groups. The IG serves as a member of the CIGIE Audit Committee, which focuses on government auditing standards and cross-cutting audit issues.

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

APPENDIX – PEER REVIEWS

The following information is provided pursuant to the requirements of section 5(a) of the Inspector General Act of 1978, as amended, 5 U.S.C. App. §§5(a)(8)-(10):

The last peer review of the OIG was conducted by the Office of the Inspector General for the National Railroad Passenger Corporation (more commonly known as Amtrak). Its report was issued on November 13, 2020. We received a rating of “pass.”

TABLE I

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

<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendation Number</u>	<u>Recommendation³</u>	<u>Comments</u>
Central Virginia Legal Aid Society, Inc.	12/23/2019	8	Conduct a detailed review of all payroll processed in 2018 and 2019 to identify payroll over and underpayments and complete this review within six months of the issuance of this report.	The grantee partially responded to this recommendation. LSC management is working with the grantee to resolve this recommendation. LSC management will notify the OIG upon resolution.
Central Virginia Legal Aid Society, Inc.	12/23/2019	9	To the extent consistent with the law, reimburse employees that were identified as underpaid and attempt to recover payment from all employees that were identified as overpaid in the above review.	The grantee partially responded to this recommendation LSC management is working with the grantee to resolve this recommendation. LSC management will notify the OIG upon resolution.
Central Virginia Legal Aid Society, Inc.	12/23/2019	16	Ensure that LSC unallowable costs are charged to funding sources other than LSC and reflected within the financial software to provide an audit trail.	The OIG considered the grantee's comments regarding this recommendation unresponsive. LSC management is working with the grantee to resolve this recommendation. LSC management will notify the OIG upon resolution.
Legal Services Vermont	1/11/2021	1	Consult with LSC management to ensure the grantee's engagement with VLA meets the existence of separate personnel criteria stipulated in LSC Regulation 45 CFR 1610.8.	The grantee agreed with this recommendation and the OIG considered the grantee's comments as responsive; however, the OIG referred the recommendation to LSC management for resolution. LSC management conducted a Program Integrity (Part 1610) Review and is working with the grantee to resolve the recommendation. LSC management will notify the OIG upon resolution.

³ There are no quantified potential cost savings associated with these open recommendations.

TABLE I (continued)

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

<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendation Number</u>	<u>Recommendation⁴</u>	<u>Comments</u>
Central California Legal Services	08/30/2021	20	Obtain, document, and store all supporting documentation of School Loan Reimbursement Assistance Program (SLRAP) reimbursement requests and proofs of payment in accordance with the grantee's policy so that they can be accessed in the future, if necessary.	Corrective action in process. The OIG is working directly with the grantee to close this recommendation.
Audit of LSC's Distribution, Use, and Oversight of CARES Act Funds	07/26/2022	1	Develop written procedures to maintain documents for Special Purpose, Disaster, or other similar grants. If the documents for requests and approvals of COVID-19 quarterly report extensions can be retrieved, keep them in a central location.	Corrective action in process. LSC management is working to develop and update document retention procedures. They stated that the target completion date is December 2023.
Audit of LSC's Distribution, Use, and Oversight of CARES Act Funds	7/26/2022	3	Ensure that Office of Program Performance (OPP) and Office of Compliance and Enforcement (OCE) Policies and Procedures Manuals are updated and complete, including policies and procedures for the oversight and monitoring of Disaster Program funds, which would include LSC CARES Act Funds.	Corrective action in process. LSC management is working to develop and update business processes for OCE and OPP, including all programmatic and oversight functions for basic field and special grant programs. Their target completion date is December 2023.
Audit of LSC's Distribution, Use, and Oversight of CARES Act Funds	7/26/2022	6	Complete revisions and publish the Office of Financial and Administrative Services (OFAS) Accounting Procedures Manual, including bank account verification policies and procedures.	Corrective action in process. LSC management is working to develop two OFAS policies and procedures manuals; one manual for accounting policies and another for accounting procedures. Their target completion date for the accounting policies manual is May 31, 2023. They report that the accounting procedures manual will be drafted starting in July 2023.

⁴ There are no quantified potential cost savings associated with these open recommendations.

TABLE II

Audit Reports, Other Reports, and Quality Control Reviews Issued During Reporting Period

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>	<u>Management Decision Made by End of Reporting Period</u>
Texas RioGrande Legal Aid, Inc.	11/10/2022	\$0	\$0	\$0	No
Land of Lincoln Legal Aid, Inc.	3/15/2023	\$0	\$0	\$0	No

Part B Other Reports

<u>Report Title</u>	<u>Date Issued</u>	<u>Description</u>
IT Vulnerability Assessment IT Vulnerability Assessment IT Vulnerability Assessment IT Vulnerability Assessment IT Vulnerability Assessment IT Vulnerability Assessment IT Vulnerability Assessment IT Vulnerability Assessment	12/9/2022 1/20/2023 2/6/2023 3/7/2023 3/13/2023 3/15/2023 3/28/2023 3/31/2023	Vulnerability assessments of grantees' computer networks conducted by an OIG contractor. The assessments identified potential vulnerabilities and recommended corrective actions.
Compendium Report	12/15/2022	A special compendium report providing a summary and analysis of the findings and recommendations contained in the OIG's internal control audit reports issued from October 1, 2019, through September 30, 2021.

TABLE II

Part C

Quality Control Reviews

	<u>IPA</u>	<u>Recipient</u>	<u>Date Issued</u>
1	Roberts, McKenzie, Mangan & Cummings	Legal Aid of Southern Missouri	10/05/2022
2	Jacobson Jarvis & Co.	Northwest Justice Project	10/06/2022
3	BDO USA, LLP	Legal Services of Greater Miami, Inc.	10/06/2022
4	Weaver and Tidwell, L.L.P.	Legal Aid of NorthWest Texas	10/12/2022
5	BCM, LLC	Micronesian Legal Services Corporation	10/25/2022
6	Gary McGee & Co. LLP	Legal Aid Services of Oregon	10/25/2022
7	Select Accounting, Reporting, & Consultation	Neighborhood Legal Services Program of the District of Columbia	10/27/2022
8	BT&Co. P.A.	Kansas Legal Services, Inc.	12/19/2022
9	Eide Bailly, LLP	Dakota Plains Legal Services, Inc.	12/19/2022
10	Brown, Ewing & Co., P.A.	North Mississippi Rural Legal Services, Inc.	12/20/2022
11	Bert Smith & Co.	Legal Services of the Virgin Islands	1/04/2023
12	CLA	Community Legal Services of Mid-Florida	1/05/2023
13	Ellsworth & Stout, LLC	Nevada Legal Services, Inc.	1/25/2023
14	Herman & Cormany, CPAs, A.C.	Legal Aid of West Virginia	1/26/2023
15	JMM & Associates	Legal Services Vermont, Inc.	2/07/2023
16	Roberts, McKenzie, Mangan & Cummings	Legal Aid of Western Missouri	2/15/2023
17	Purvis, Gray & Company, LLP	Three Rivers Legal Services, Inc.	2/15/2023
18	Maher Duessel, CPAs	MidPenn Legal Services	2/22/2023
19	Keefe McCullough & Co. LLP	Coast to Coast Legal Aid of South Florida	2/22/2023
20	Victor J. Cannistra, CPA, P.C.	Legal Services of the Hudson Valley	3/07/2023
21	Hinkle + Landers, CPAs	New Mexico Legal Aid	3/10/2023
22	Gruber and Lopez, Inc.	Community Legal Aid SoCal	3/13/2023

TABLE III

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

<u>Report Title</u>	<u>Date Issued</u>	<u>Date Resolved</u>	<u>Questioned Costs</u>	<u>Funds Put to Better Use</u>	<u>Unsupported Costs</u>	<u>Comment</u>
Central Virginia Legal Aid Society, Inc.	12/23/2019	11/23/2022	\$0	\$0	\$0	The grantee, with LSC management's follow-up, resolved four of the seven outstanding recommendations during the current SAR period. LSC management continues to work with the grantee to resolve the remaining recommendations.

TABLE IV

Audit Reports Issued During Prior Reporting Periods with Unresolved Questioned Costs

<u>Report Title</u>	<u>Date of Issuance</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
Coast to Coast Legal Aid	7/8/2021	\$376,521	\$0

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; recommendations for corrective action.	3-8, 13-14
Section 5(a)(2)	Recommendations made before the reporting period for which corrective action has not been completed.	23-24
Section 5(a)(3)	Significant investigations closed during the period.	13-14
Section 5(a)(4)	Number of convictions during the period resulting from investigations.	19
Section 5(a)(5)	Information on audit and other reports: questioned costs, unsupported costs, funds to be put to better use, and if management decision made.	24
Section 5(a)(6)	Information on management decisions during period re reports issued during prior period.	26
Section 5(a)(7)	Information per FFMIA §804(b).	None
Section 5(a)(8)-(10)	Information regarding peer reviews.	21
Section 5(a)(11)-(12)	Statistical table showing numbers of investigative reports, persons referred for prosecution, and indictments/informations resulting from prior referrals..	19
Section 5(a)(13)	Investigations involving senior employees where allegations of misconduct are substantiated.	None
Section 5(a)(14)	Instances of whistleblower retaliation.	None
Section 5(a)(15)	Attempts by the establishment to interfere with OIG independence.	None
Section 5(a)(16)	Specified matters closed and not disclosed to the public.	None

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



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

Like the other OIGs, at the Legal Services Corporation we will continue to post our reports to our own website, www.oig.lsc.gov, but with Oversight.gov, users can sort, search, and filter the site's database of public reports from all of CIGIE's member OIGs, including the LSC OIG, to find reports of interest. Users can receive notifications when new reports are added to the site by following CIGIE's Twitter account, [@OversightGov](https://twitter.com/OversightGov).



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TIME AND ATTENDANCE ABUSE
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DIVERSION OF CLIENTS/FEES
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OTHER VIOLATIONS

IMPROPER USE OF LSC FUNDS
VIOLATIONS OF LSC RESTRICTIONS
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