

# LEGAL SERVICES CORPORATION



## Office of Inspector General

Semiannual Report to the Congress  
April 1, 2018 – September 30, 2018

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

LEGAL SERVICES CORPORATION

[www.oig.lsc.gov](http://www.oig.lsc.gov)

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

**A MESSAGE FROM THE INSPECTOR GENERAL**

I am pleased to submit this report on the activities and accomplishments of LSC's Office of Inspector General (OIG) for the period April 1, 2018, through September 30, 2018.

During this reporting period our audit office issued six reports. Among them was 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 grantees in efforts to improve internal controls in areas where recurring issues have been identified. We also conducted an audit of LSC's purchase card program and, as part of our role as a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), conducted a peer review of another OIG's audit operations.

We continued a program of conducting vulnerability assessments of grantees' computer systems, completing three this period, testing for both internal and external weaknesses in their networks. We believe this effort has been of significant benefit, helping grantees to identify and correct issues that could compromise the integrity of their information systems.

We also continued our Quality Control Review (QCR) program, to provide enhanced oversight of the independent audits required annually of LSC grantees. During the period we issued 19 QCRs.

Our investigations office opened 24 new cases and closed 18 cases during the reporting period. The investigations involved a variety of criminal and regulatory matters, including fraud, false claims, the unauthorized practice of law, and the diversion of prospective grantee clients for personal gain. Criminal charges were filed in two cases arising from our investigations, and a conviction obtained against a former program manager of an LSC grantee for theft of program funds. Our investigations resulted in over \$100,000 in monetary recoveries this period.

We continued to emphasize outreach and education as part of our ongoing efforts to help prevent fraud and abuse in LSC-funded programs. We issued two fraud alerts, a management advisory, and are launching a new webpage, "The Fraud Corner," as a vehicle for

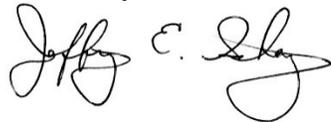
highlighting current issues and providing timely fraud prevention tips. We maintained an active calendar of grantee visits, including fraud awareness briefings and vulnerability assessments.

I would like to note that this year marks the 40<sup>th</sup> anniversary of the Inspector General Act of 1978, and the creation of the original 12 Offices of Inspector General under the Act. Our office was established in 1989, pursuant to the Inspector General Act Amendments of 1988. Since that time, we have been part of a community that has grown to include 73 statutory Inspectors General who collectively oversee the operations of nearly every aspect of the federal government and of specified federally funded entities.

We are proud of the accomplishments of our own office, as well as those of the IG community, in helping to combat fraud and abuse and to promote economy and efficiency in government and in federally funded operations. We look forward to continuing our efforts to provide independent and effective oversight of the Legal Services Corporation, to working with the Council of the Inspectors General on Integrity and Efficiency on cross-cutting issues, and to continuing to work with LSC management and staff and the Board of Directors in our common endeavor to help LSC support equal access to justice for low-income Americans.

I wish to express my appreciation to all the members of the Board of Directors for the interest and support they have shown for the work of the OIG. I also remain deeply appreciative to the Congress for its steadfast support of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey E. Schanz". The signature is fluid and cursive, with the first name "Jeffrey" being the most prominent part.

Jeffrey E. Schanz  
Inspector General  
October 31, 2018

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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 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 2018 appropriation (exclusive of OIG operations) was \$404.9 million. The Corporation provides funding to 133 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, for example in LSC's annual appropriations acts.

The IG reports serious problems to the LSC Board of Directors and must also report to appropriate law enforcement authorities when, through audit, investigation, or otherwise, the IG finds that there are reasonable grounds to believe that a crime has occurred. The IG is required by law to keep Congress informed of the activities of the office through semiannual reports and other means. The IG also provides periodic reports to the board and management of LSC and, when appropriate, to the boards of directors and management of LSC grantees. Some of these reports are specific (e.g., an audit of a particular grantee or an investigation of a theft or embezzlement), while others are of broader application.

Within their different statutory roles, the OIG and LSC management and staff strive to enable LSC to most effectively pursue its mission of promoting and supporting equal access to justice for low-income persons.

## AUDITS

As discussed below, during this reporting period the OIG issued six reports: a special report summarizing the findings and recommendations of our internal control audits of grantees over a two-year period; a report reviewing LSC's purchase card program; an external peer review of the U.S. Securities and Exchange Commission OIG audit division; and three vulnerability assessments of grantees' IT networks. At the conclusion of the period, we had five projects underway, in various stages of completion.

The OIG has responsibility for overseeing the independent public accountant (IPA) audits performed annually at each grantee. During the reporting period, we reviewed 125 IPA reports, with fiscal year ending dates ranging from December 31, 2017, through January 31, 2018.

We issued 19 Quality Control Review (QCR) reports this period. The goal of the QCR initiative is to improve the overall quality of the IPA audits and to ensure that all audits are conducted in accordance with applicable standards and with the guidance provided by the OIG.

### **Compendium Report**

In August 2018, the OIG issued its second special compendium report, providing a summary and analysis of the findings and recommendations contained in our internal control audit reports issued from October 1, 2015, through September 30, 2017. Our objective was to consolidate the results to provide insight into the content and frequency of findings and recommendations to help LSC and grantee management better recognize and respond to recurring problems. The report also compares findings and recommendations issued during the period to those of the prior compendium report, which summarized the findings and recommendations from audits issued from October 1, 2013, through September 30, 2015.

Over the recent two-year period, the OIG issued 19 internal control audits containing 227 recommendations to improve internal controls at LSC grantees. The report categorized the 227 recommendations into 12 topics. A majority of the recommendations addressed issues with written policies and procedures, contracting, fixed assets, general ledger and financial controls, and disbursements. The OIG also issued recommendations related to segregation of duties, credit cards, derivative income, cost allocation, internal reporting and budgeting, payroll, and employee benefits.

Viewed in conjunction with the compendium report issued by our office in December 2015, in the current report we found that written policies and procedures remained consistently deficient among LSC grantees. In most cases, we determined that written policies were missing from the grantees' accounting manuals altogether or did not reflect the practices

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

To address findings related to overall written policies and procedures, the OIG recommended that executive directors should:

- establish or update written policies and procedures in all areas to ensure they describe in sufficient detail all processes and controls currently used by the grantees, and are in accordance with LSC's Accounting Guide; and
- train staff on any revisions and additions to written policies to ensure that all new policies are implemented and practiced.

Findings in the areas of contracting, disbursements, and fixed assets also remained generally consistent with the prior period, while general ledger and financial control findings emerged as more significant issues during this reporting period in comparison to the last.

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

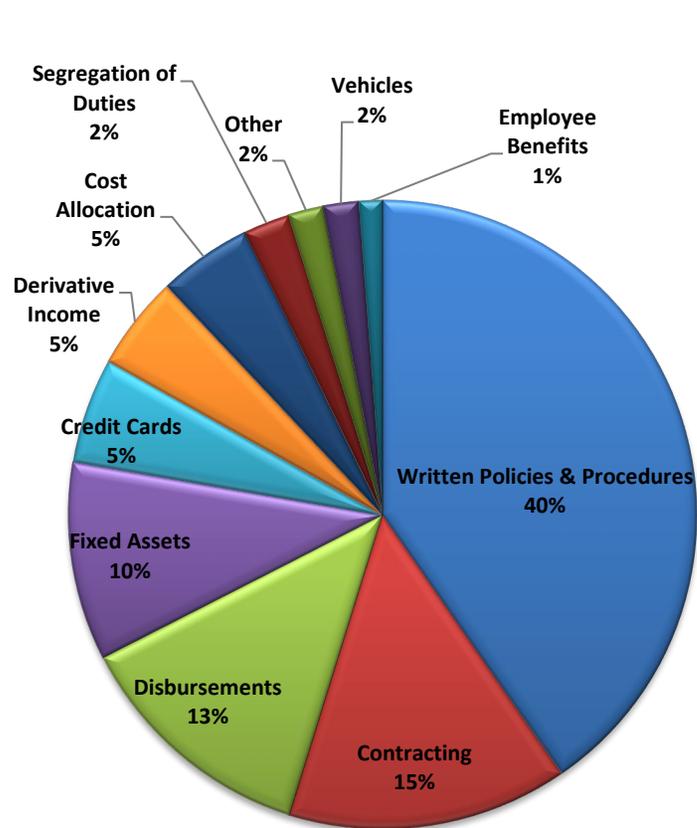
The following charts present the results of our analysis of findings and recommendations issued during this period, October 1, 2015–September 30, 2017, in comparison to the previous reporting period, October 1, 2013–September 30, 2015.

### Comparison Summary of Total Recommendations by Topic

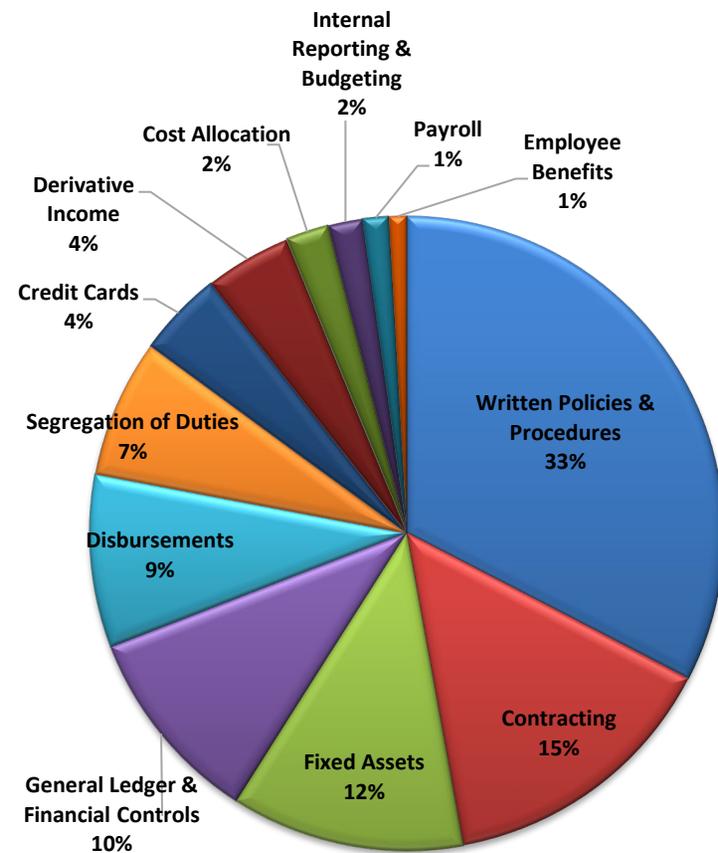
	October 1, 2013 – September 30, 2015		October 1, 2015 – September 30, 2017			
	Number of Recommendations	Percentage of Recommendations	Number of Audit Reports	Number of Recommendations	Percentage of Recommendations	Number of Audit Reports
Written Policies and Procedures	67	40%	18	74	33%	19
Contracting	24	15%	12	33	15%	17
Disbursements	21	13%	10	20	9%	12
Fixed Assets	17	10%	10	27	12%	14
Credit Cards	9	5%	7	10	4%	6
Derivative Income	8	5%	6	10	4%	7
Cost Allocation	8	5%	6	5	2%	2
Segregation of Duties	4	2%	4	16	7%	11
Other	3	2%	3	0	0%	0
Vehicles	3	2%	1	0	0%	0
Employee Benefits	2	1%	2	2	1%	2
General Ledger and Financial Controls	0	0%	0	23	10%	10
Internal Reporting and Budgeting	0	0%	0	4	2%	3
Payroll	0	0%	0	3	1%	2
<b>Grand Total</b>	<b>166</b>			<b>227</b>		

**Comparison of Total Recommendations by Topic**

**Percentage of Recommendations from Reports Issued 10/1/13 - 9/30/15**



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



## **Audit of LSC Purchase Cards**

The OIG conducted an audit to assess the adequacy and effectiveness of the purchase card program at LSC. The objectives of the audit were to determine whether internal controls over purchase cards were properly designed and implemented to help prevent fraud, waste, and abuse by cardholders or others, and to determine whether administration and oversight activities over the purchase card program were adequate. The Office of the Comptroller within LSC's Office of Financial and Administrative Services (OFAS) administers the program.

To accomplish the audit objectives, the OIG identified, reviewed, evaluated, and tested internal controls related to the following areas of the purchase card program:

- Administration and oversight;
- Procurement;
- Disbursements; and,
- Reconciliation and accounting

### **Internal Controls**

The OIG found that, in general, LSC properly designed and implemented controls over purchase cards. The disbursements process over the purchase card billing statements was adequate and comparable to the GSA SmartPay guidelines and the Prompt Payment Act.

To test for timeliness of payments, appropriate approval, and accounting of the payments, the OIG judgmentally selected a sample of six master statements totaling \$165,706. We found that the Purchase Card Program's reconciliation and accounting process accurately and completely reflected the purchase card activity in the LSC accounting system. The reconciliation process had appropriate system controls and segregation of duties.

To review the procurement process, the OIG tested 136 purchase transactions totaling \$299,777, which represented approximately 36 percent of the \$840,757 disbursed during the period April 1, 2015, through March 31, 2017. We noted the following:

- Eight transactions totaling \$9,728 were missing requisite checklists. (LSC utilizes an electronic purchasing and management tool, referred to as the checklist. It digitally collects, organizes, and stores initial approval, competition-related materials, and written comments and justifications. The checklist must be used for all purchases greater than \$100.)
- Four cardholders made purchases totaling \$16,107 without the required written delegation or a completed LSC purchasing and contracting delegation form, or an LSC OIG checklist, which authorizes OIG cardholders to make purchases. The accounting manager subsequently provided updated or new forms for three of the

cardholders. The fourth cardholder was an OIG staff member. The OIG maintains its own checklists for goods and services that it procures; the OIG, not LSC management, was accountable for the missing checklist for the fourth cardholder.

- Two transactions totaling \$7,816 were missing adequate supporting documentation:
  - One transaction totaling \$5,798 for a conference table did not have an invoice or receipt; it was accompanied only by a proposal.
  - One transaction totaling \$2,018 for an employee's desk did not have a vendor receipt; it had only an automated VISA transaction receipt.
- Integrated cardholders comingled purchase and travel expenses on the same expense report. We found that integrated cardholders generally reconciled their purchase-related expenses separately from their individual travel expenses. However, two transactions totaling \$2,884 were not reconciled in the appropriate expense category in Concur (an online travel management system that LSC uses). All the charges were reconciled in the cardholders' travel expense reports, but the expenses were purchase-related, and should have been filed in the cardholders' purchase expense reports.
- The documented policies did not address the following practices:
  - the Concur system and the process of expense submission and credit card statement reconciliation;
  - the alternative method of uploading expense report receipts in Concur via fax;
  - the time-frames cardholders have to reconcile purchases and submit expense reports in Concur;
  - the OFAS process of reconciling the expense report to the purchase card statement; and
  - the OFAS process for receiving and processing Citibank payments and related accounting procedures.

### **Administration and Oversight Activities**

The OIG found that LSC's oversight and administration over purchase cards were generally adequate. However, we identified the following as areas that needed improvement:

- Cardholders did not receive any formal training on card-usage and approval responsibilities before they began making purchases or assigning approvals on behalf of LSC.

- Requisite authorization forms were not consistently used. Out of the fifteen cardholders reviewed, two cardholders' records were missing requisite authorization forms.
- There were no acknowledgement agreements, or any form of documentation maintained between LSC and the purchase cardholders outlining the responsibilities and consequences for non-compliance.
- LSC's documented policies did not address all current practices related to administration and oversight, e.g., periodic actions taken by program administrators to monitor illegal or other undesirable activities.
- Documented staff positions and offices were outdated.

The OIG made ten recommendations:

One recommendation addressed the need to provide clear guidance to staff and cardholders on purchase and travel expenses, especially in relation to board of directors meeting expenses.

One recommendation addressed the need to ensure organizational policies are followed, such as the use of delegation forms, training of cardholders, and updating delegation forms to reflect accurate purchasing authority.

One recommendation addressed the need to make cardholders aware of what constitutes adequate supporting documentation when preparing and submitting expense reports.

One recommendation was for management to provide instructions, train approving officials, and document policies to address the dual functionality of integrated cards.

One recommendation addressed the need to enhance the program and accounting manuals to include detailed policies and processes performed by OFAS.

Two recommendations related to training, addressing the need to maintain a robust training program for cardholders and approving officials, and to update policies to include training procedures.

One recommendation was for management to ensure that complete and appropriate documentation is received prior to changes to a cardholder's card type or spending limit.

One recommendation addressed the need to design and implement a cardholder acknowledgement agreement that clearly states the restrictions on use and consequences of misuse of the purchase card.

One recommendation addressed the need to update program and accounting manuals to include current program names and positions.

LSC management agreed with all of the findings in the report and stated it will implement all ten recommendations.

The recommendations will remain open until LSC management has provided the OIG with evidence that appropriate actions have been taken.

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

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

The assessments found that the grantee sites tested generally did not present a high-level risk of exposure from outside their networks. A limited number of critical or high-level vulnerabilities were found in the external boundaries of grantees' networks. The more critical vulnerabilities discovered at each grantee site were internal to their network environments. These principally resulted from out-of-date operating systems and/or missing patches and updates. Each grantee reviewed was provided a report listing potential issues and vulnerabilities, along with recommended corrective actions and best practices, to assist in their remediation efforts.

### **External Peer Review**

The OIG was tasked by the Council of the Inspectors General for Integrity and Efficiency (CIGIE) to conduct an external peer review of the U.S. Securities and Exchange Commission Office of Inspector General's audit operations for the period April 1, 2017, to March 31, 2018.

The peer review process was based on the CIGIE *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspectors General*, dated September 2014. The process included a pre-site review, entrance briefing, sample selection, review in accordance with GAGAS and professional standards, and exit conference. We performed our review work from April 2018 to June 2018. A final report was issued on September 5, 2018, giving a rating of "pass."

## Statistical Summary

### Audits

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

### Recommendations to LSC Grantees

Pending at beginning of reporting period .....	57
Issued during reporting period .....	0
Closed during reporting period .....	36
Pending at end of reporting period .....	21

### Recommendations to LSC Management

Pending at beginning of reporting period .....	0
Issued during reporting period .....	10
Closed during reporting period .....	0
Pending at end of reporting period .....	10

## **Oversight of IPA Audits**

### **Independent Audits of Grantees**

Since 1996, LSC's annual appropriations acts have required that each person or entity receiving financial assistance from the Corporation be subject to an annual audit by an independent public accountant (IPA). Each grantee contracts directly with an IPA to conduct the required audit in accordance with generally accepted government auditing standards and the OIG Audit Guide for Recipients and Auditors (including the Compliance Supplement), which incorporates most requirements of the Uniform Guidance regulations, 2 CFR 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).

The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA audit process. Our oversight activities, detailed below, include desk reviews and a quality control program, with independent onsite reviews.

### **Desk Reviews of IPA Reports**

The OIG conducts desk reviews of all IPA reports issued to grantees. This process enables us to identify and forward significant IPA findings to LSC management as necessary. We also track recommendations to determine whether appropriate responsive actions have been taken. We use information from the review of the IPA reports as part of our risk assessment and planning processes, identifying potential problems or concerns that may warrant follow-up via audit, investigation, or other review.

### **Quality Control Reviews**

We started the eighth year of our Quality Control Review (QCR) initiative. Under this program, IPA firms performing grantee audits are subject to review to determine whether their work is being conducted in accordance with applicable standards and with the instructions issued by our office. The reviews are conducted by a CPA firm under contract to the OIG. The contractor also identifies issues that may require further attention or additional audit work by the IPA under review.

During this reporting period, we conducted 19 QCRs of FY2016 audited financial statements.

Seven QCRs met standards with no exceptions. Eleven of the QCRs met standards with one or more exceptions, five of which required the IPA to perform additional work and provide documentation to support their conclusions. We evaluated and accepted the additional work and documentation submitted by three of the five IPAs during this reporting period. We accepted three of the audits as a result. Of the remaining two IPAs,

the work performed by one was not due to the OIG until after the close of this reporting period, and the work performed by the other IPA was not sufficient to address the recommendations in the QCR. Again, we required the IPA to perform additional work and provide sufficient documentation to satisfy the recommendations in the report. The additional work performed by the IPA is currently under review by the OIG.

Lastly, for one of the 19 QCRs conducted during the reporting period, we 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 performed by the IPA is currently under review by the OIG.

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

### **Follow-up Process**

LSC's annual appropriations acts have specifically required that LSC follow-up on significant findings identified by the IPAs and reported to the Corporation's management by the OIG. IPA audit reports are submitted to the OIG within 120 days of the close of each grantee's fiscal year. As noted above, through our desk review process the OIG reviews each report and refers appropriate findings and recommendations to LSC management for follow-up. LSC management is responsible for ensuring that grantees submit appropriate corrective action plans for all material findings, recommendations, and questioned costs identified by the IPAs and referred by the OIG to management.

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

### **Review of Grantees' Annual Audit Reports: IPA Audit Findings**

In order to provide more complete information in our semiannual reports to Congress, the OIG customarily includes a summary of significant findings, and the status of follow-up on such findings, reported by the IPAs as part of the grantee oversight process. The audit reports and the findings reflect the work of the IPAs, not the OIG.

During this reporting period, the OIG reviewed a total of 125 IPA audits of grantees with fiscal year ending dates from December 31, 2017 through January 31, 2018. Of the 125 audits, 14 were sub-recipients of LSC funds. These audit reports contained 71 findings. The OIG reviewed the findings and determined that 33 were either not significant, or that

corrective action had already been completed. The remaining 38 findings were referred to LSC management during the period for follow-up. The following tables present information on those findings.

**Summary of Findings Reported in Grantee Financial Statement Audits with Fiscal Years Ending December 31, 2017 through January 31, 2018**

Total Number of Findings Referred .....	38
Number of Findings with Corrective Action Accepted by LSC Management.....	0
Number of Findings Awaiting LSC Management Review.....	38

**Types of Findings Referred to LSC Management for Follow-up**

<b><u>Category</u></b>	<b><u>Number of Findings</u></b>
Financial Transactions and Reporting .....	15
Policies and Procedures/Other .....	11
Missing Documentation .....	7
Timekeeping.....	4
Segregation of Duties .....	1
 TOTAL.....	 38

## **INVESTIGATIONS**

During this period, OIG investigations resulted in one indictment, one information, one guilty plea, and one sentencing action. Investigations also resulted in over \$100,000 in monetary recoveries, the disbarment of an attorney in two states, and a referral to management regarding a potentially improper procurement and questioned costs in the amount of \$14,450.

The OIG opened 24 cases during the period. These included 15 investigative cases, three Regulatory Vulnerability Assessments, five Fraud Vulnerability Assessments, and one questioned cost case. The investigative cases included allegations of diverting clients, fraudulent transactions, fraudulent travel claims, the unauthorized outside practice of law, time and attendance fraud, contracting fraud, and other potential violations of LSC statutes and regulations.

The OIG closed 18 cases during the reporting period. These included 12 investigative cases, one Regulatory Vulnerability Assessment, and five Fraud Vulnerability Assessments. The OIG also issued several fraud prevention advisories during this reporting period. These included one fraud alert, two “Fraud Corner” articles, and one management information memorandum.

### **Criminal Proceedings**

#### **Sentencing of Former Managing Attorney**

As a result of an OIG investigation previously reported in our October 2017 Semiannual Report to Congress, a former managing attorney at an LSC grantee was sentenced in federal court. The investigation found that the managing attorney was recovering attorneys’ fees from court appointed cases. The attorney was working these cases as a grantee employee and had entered the cases into the grantee case management system. LSC regulations required the managing attorney to remit the attorneys’ fees from the court appointed cases to the grantee.

The former managing attorney was convicted on a guilty plea to one count of theft from a program receiving federal funds. He was sentenced to 12 months in federal prison and ordered to pay \$1,000 in restitution to the LSC grantee, as well as a \$100 special assessment to the federal crime victims fund. Prior to the sentencing, the grantee had recovered over \$20,000 from its insurance company based on its fidelity bond coverage for employee theft.

As a result of the criminal case, two state supreme courts disbarred the former managing attorney from the practice of law.

## **Criminal Information and Guilty Plea of Former Program Manager**

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

The former program manager also entered into a civil settlement on June 6, 2018, with the United States Attorney's Office, in which she agreed to repay the United States \$79,199. She made full payment on June 26, 2018.

## **Indictment of a Former Director of Information Technology**

As a result of an OIG investigation, a former director of information technology (IT) of an LSC grantee was indicted on one count of theft from a program receiving federal funds and 17 counts of theft of government property.

The investigation found that the former director of IT purchased sports memorabilia using the grantee's credit card. He created fake invoices so that the purchases appeared to be legitimate business-related purchases. The director of IT would then sell the sports memorabilia for personal profit. The loss associated with this theft was over \$20,000.

## **Recovery Actions**

### **Questioned Cost Referral – “Finder's Fee” on a Grantee Contract**

As a result of an OIG investigation, a consultant to a grantee was identified as having received a \$14,450 “finder's fee” from an information technology (IT) vendor in return for steering two contracts to this favored vendor. The investigation determined that had the consultant not taken the fee, the grantee would have received a discount on the contract price in the equivalent amount of \$14,450. The investigation also determined that the consultant provided the vendor confidential billing information in an effort to influence the grantee's selection of the favored vendor's bid.

Subsequent to the procurement action, the consultant was hired by the grantee as its permanent director of IT. Although the OIG informed the grantee's executive director of the improper actions taken by the director of IT during this procurement process, the IT director continued to be employed by the grantee.

We referred our investigative findings regarding the IT director to federal and state authorities. The case was declined for criminal prosecution. We referred the matter to LSC management for potential questioned costs. We also referred the issues associated with the IT director, including the background of the criminal referrals, to LSC management for appropriate administrative action.

## **Fraud Prevention Initiatives**

The OIG maintains an active fraud prevention program, engaging in a variety of outreach and educational efforts intended to help protect LSC and its grantees from fraud and abuse. We regularly conduct Fraud Awareness Briefings (FABs), Fraud Vulnerability Assessments (FVAs), and Regulatory Vulnerability Assessments (RVAs). We provide fraud alerts and other information to help increase grantees' awareness of developing trends that may pose a risk to LSC funds. The OIG also developed a new fraud prevention initiative, "The Fraud Corner."

### **Fraud Awareness Briefings**

FABs are presented by experienced OIG investigative staff and cover topics such as: who commits fraud; what conditions create an environment conducive to fraud; how can fraud be prevented or detected; and what to do if fraud is suspected.

While employees at LSC-funded programs may generally be aware that fraud and abuse can occur at any organization, they may not be aware of the potential for such incidents to occur within their own programs. FABs highlight the unfortunate truth that a number of LSC-funded programs have been victimized by frauds involving hundreds of thousands of dollars, and in one case the diversion of over a million dollars in grant funds.

The FABs describe common types of fraud, with particular focus on the various schemes that have been perpetrated against LSC grantees and the conditions that helped facilitate the losses. The briefings aim to foster a dialogue with staff and to engender suggestions for ways to help protect their own programs from fraud and abuse.

Since initiating the FAB program in 2009, we have conducted 156 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, LSC headquarters personnel, a presentation at a National Legal Aid and Defender Association annual conference, and six webinars that reached multiple grantees.

One FAB was completed at a grantee and one FAB webinar was provided for new LSC grantee executive directors and other employees at three grantees during this reporting period.

## **Fraud Vulnerability Assessments**

FVAs are conducted at LSC grantee offices and include a focused document review in areas considered high risk or prone to abuse. We also review the grantee's internal control policies, and the degree to which they are actually complied with in practice. Finally, we conduct a personal briefing for the executive director and principal financial officer on fraud detection and prevention measures appropriate to their particular program.

A typical FVA can include reviews of credit card transactions, petty cash accounts, bank account reconciliations, travel claims, office supply expenses, and other selected areas that have been linked to the commission of fraud at grantee programs. FVAs can help grantees identify both existing vulnerabilities and potential problem areas. FVAs sometimes detect ongoing fraud or abuse, which may result in further investigation. FVAs also serve as a deterrent by helping grantee staff members become aware of the potential for fraud and reminding them that the OIG will investigate and seek to prosecute cases involving fraud or misuse of LSC grant funds.

Five FVAs were closed during the reporting period.

## **Regulatory Vulnerability Assessments**

We began conducting RVAs based our experience in investigating financial frauds in which grantees were victimized. We often found that noncompliance or laxity with respect to certain regulatory and other requirements contributed to an environment that increased the potential for fraud. RVAs, conducted at grantee offices, seek to determine whether the grantee is following applicable provisions of the LSC Act, LSC regulations, grant assurances, provisions of the Accounting Guide, and the case documentation and reporting requirements of LSC's Case Service Report Handbook. We have found that by focusing our reviews on certain key areas, we are able to assist grantees in identifying regulatory compliance issues that could also lead to broader potential financial vulnerabilities.

One RVA was closed during the reporting period.

## **Fraud Prevention Policy**

During a prior reporting period, the OIG issued a fraud alert to executive directors and their boards of directors to inform grantees of OIG investigations dealing with the risk of fraud, waste, and abuse associated with outside employment.

During a visit to a grantee this period, the OIG presented the fraud alert to the executive director. In response, the grantee immediately implemented an outside employment policy to ensure full disclosure of outside employment and to prevent potential conflicts

of interest. After the policy was disseminated to grantee staff, at least one example of outside employment that posed a potential conflict of interest was disclosed. Corrective action was taken.

### **Fraud Alert on Outside Practice of Law**

A fraud alert was issued to executive directors and their boards of directors to remind grantees of the restrictions under LSC regulations regarding the outside practice of law by full-time grantee attorneys.

The fraud alert also informed grantees of past OIG investigations that identified financial harm to grantees and clients resulting from the unauthorized outside practice of law by full-time grantee attorneys. The alert provided guidance to grantees regarding indicators of unauthorized outside practice and techniques for its prevention.

### **Management Information Memorandum**

The OIG issues management information memoranda (MIMs) when we believe that matters uncovered in the course of ongoing work should be brought to management's attention. During this reporting period, we issued a MIM focused on a restrictive clause often found within medical legal partnership (MLP) contracts between LSC grantees and healthcare facilities. The clause may prevent LSC grantees from representing clients in a cause of action adverse to the healthcare facility.

The MIM highlighted that MLP agreements containing this type of restrictive clause may result in prospective grantee clients being unable to receive services for which they are otherwise eligible. Additionally, MLP memoranda of understanding and contracts that include the restrictive clause may pose a legal risk to grantees if a grantee accepts clients in violation of the clause and the MLP contract terms.

This issue was referred to LSC management for appropriate action.

### **The Fraud Corner**

The OIG is developing a webpage, "The Fraud Corner," which will highlight fraud prevention issues identified through our investigative activities. This reporting period, we sent our initial articles to all executive directors and LSC management. The articles described a recent prosecution related to travel fraud and notified grantees of an incident involving "spoof calling," which had compromised LSC's main telephone number. The site will be updated periodically with new articles.

## **Hotline**

The OIG maintains a Hotline for reporting illegal or improper activities involving LSC or its grantees. Information may be provided by telephone, fax, email, or regular mail. Upon request, a provider's identity will be kept confidential. Reports may also be made anonymously.

During this reporting period, the OIG received 60 Hotline contacts. Of these matters, 17 were referred to LSC management for follow-up, 12 were opened as investigations, and the remaining 31 were closed.

## **Statistical Summary**

### **Investigative Cases**

Open at the beginning of period .....	31
Opened during period .....	24
Closed during period .....	18
Open at the end of period .....	37
Investigative reports issued.....	2

### **Prosecutorial Activities**

Referrals pending at the beginning of the period .....	1
Persons referred to DOJ for criminal prosecution .....	1
Persons referred to state and local prosecuting authorities for criminal prosecution .....	1
Referrals declined during the period .....	1
Referrals accepted during the period .....	1
Referrals pending at the end of the period .....	1
Indictments and informations resulting from criminal referrals .....	2
Guilty Pleas .....	1
Sentencing .....	1

### **Investigative Activities**

Inspector General subpoenas issued.....	16
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### **Administrative Actions**

State bar disbarments .....	2
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**Monetary Results**

Civil settlement.....	\$79,199
Recovery.....	\$20,138
Restitution .....	\$1,000
Special assessment .....	\$100
Total .....	\$100,437

**Metrics**

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 one FOIA request; we responded within the requisite timeframe. Shortly before the conclusion of the reporting period the requester appealed the OIG's determination on this FOIA request.

### **Professional Activities and Assistance**

The OIG participates in and otherwise supports various activities and efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), as well other inter-agency and professional groups. The IG serves as a member of the CIGIE Audit Committee, which focuses on government auditing standards and cross-cutting audit issues.

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

## **APPENDIX – PEER REVIEWS**

The following information is provided pursuant to the requirements of section 5(a) of the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3 §5(a)(14)(B):

The last peer review of the OIG was conducted by the Office of the Special Inspector General for Afghanistan Reconstruction. Its report was issued on August 14, 2017. We received a rating of “pass.”

At the request of the Council of the Inspectors General on Integrity and Efficiency, we conducted a peer review of the audit operations of the U.S. Securities and Exchange Commission, Office of Inspector General (SEC OIG), for the period April 1, 2017, through March 31, 2018. In our report on this review, issued on September 5, 2018, the SEC OIG received a rating of “pass.”

**TABLE I**  
**Audit Reports, Other Reports, and Quality Control Reviews**

**Part A**  
**Audit Reports**

<u>Report Title</u>	<u>Date Issued</u>	<u>Questioned Costs</u>	<u>Funds Put to Better Use</u>	<u>Unsupported Costs</u>
Compendium Report on Internal Control Audit Findings & Recommendations	8/23/2018	\$0	\$0	\$0
Audit of LSC's Purchase Card Program	9/28/2018	\$0	\$0	\$0

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

<u>Report Title</u>	<u>Date Issued</u>	<u>Description</u>
External Peer Review Report on the U.S. Securities and Exchange Commission OIG Audit Organization	9/5/2018	Tasked by the Council of Inspectors General for Integrity and Efficiency, we conducted an external peer review of the S.E.C.'s OIG audit operation.
IT Vulnerability Assessments	4/24/2018; 6/28/2018; 8/22/2018	Vulnerability assessments of grantees' computer networks conducted by a contractor for the OIG, including identification of potential issues and vulnerabilities and recommended corrective actions.

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

	<b><u>IPA</u></b>	<b><u>Recipient</u></b>	<b><u>Date Issued</u></b>
1	KraftCPAs PLLC	Legal Aid Society of Middle Tennessee and the Cumberlands	4/11/2018
2	RubinBrown LLP	Legal Services of Eastern Missouri, Inc.	4/11/2018
3	Hicok, Fern & Company	Southwest Virginia Legal Aid Society, Inc.	4/11/2018
4	Roberts, McKenzie, Mangan & Cummings, P.C.	Legal Services of Southern Missouri	4/19/2018
5	Dixon Hughes Goodman LLP	South Carolina Legal Services, Inc.	5/01/2018
6	Postlethwaite & Netterville	Acadiana Legal Services Corporation	5/31/2018
7	Legacy Professionals LLP	Legal Assistance Foundation of Metropolitan Chicago	5/31/2018
8	Jacobson Jarvis & Co.	Northwest Justice Project	5/31/2018
9	Johnson Lambert LLP	Legal Aid of North Carolina, Inc.	6/01/2018
10	BCA Watson Rice LLP	Legal Services of Greater Miami, Inc.	6/14/2018
11	Sobel & Co. LLC	South Jersey Legal Services	6/15/2018
12	Winfrey CPAs	Mid-Missouri Legal Services Corporation	6/20/2018
13	CliftonLarsonAllen LLP	Florida Rural Legal Services, Inc.	6/22/2018
14	Denman & Company, LLP	Iowa Legal Aid	6/25/2018
15	Weaver and Tidwell, L.L.P.	Legal Aid of NorthWest Texas	6/25/2018
16	WSRP, LLC	Nevada Legal Services, Inc.	6/25/2018
17	J. Miller & Associates LLC	Philadelphia Legal Assistance Center	6/25/2018
18	Eide Bailly, LLP	Community Legal Services, Inc.	7/02/2018
19	Carr, Riggs & Ingram, LLC	Lone Star Legal Aid	7/02/2018

## TABLE II

### Audit Reports Issued with Questioned Costs

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

### TABLE III

#### Audit Reports Issued with Funds to Be Put to Better Use

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

## TABLE IV

### (A) Audit Reports Issued Before this Reporting Period for Which No Management Decision Was Made by the End of the Reporting Period

— NONE FOR THIS PERIOD —

## TABLE IV

### (B) Audit Reports Issued Before this Reporting Period with Unimplemented Recommendations as of the End of the Reporting Period

<u>Report Title</u>	<u>Date Issued</u>	<u>Findings Summary<sup>1</sup></u>	<u>Comments</u>
Legal Aid Services of Oklahoma, Inc.	3/23/17	A, D	Corrective action in process.
Statewide Legal Services of Connecticut	3/26/18	A, D, F, G, J, K, L, P	Corrective action in process.
Puerto Rico Legal Services, Inc.	3/30/18	A, G, H	Corrective action in process.

**Legend:**

A = Written Policies & Procedures	B = Disbursements	C = Contracting	D = Fixed Assets	E = Derivative Income
F = Credit Cards	G = Cost Allocation	H = General Ledger & Financial Controls	I = Client Trust Funds	J = Segregation of Duties
K = Internal Reporting & Budgeting	L = Accounting System Access	M = Vehicles	N = Job Descriptions	P = Payroll

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<sup>1</sup>There are no quantified potential cost savings associated with these open recommendations.

## TABLE V

### Index to Reporting Requirements of the Inspector General Act

<u>IG Act Reference*</u>	<u>Reporting Requirement</u>	<u>Page</u>
Section 4(a)(2)	Review of and recommendations regarding legislation and regulations.	None
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	3-10, 15-19
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-10
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	29
Section 5(a)(4)	Matters referred to prosecutive authorities.	15-17, 21
Section 5(a)(5)	Summary of instances where information was refused.	None
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and funds to be put to better use.	25
Section 5(a)(7)	Summary of each particularly significant report.	3-10
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs.	27
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	28
Section 5(a)(10)(A)	Summary of each audit issued before this period for which no management decision was made by the end of the period.	None
Section 5(a)(10)(B)	Audit reports with no establishment comment within 60 days.	None
Section 5(a)(10)(C)	Audit reports issued before this period with unimplemented recommendations as of the end of the period.	29
Section 5(a)(11)	Significant revised management decisions.	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	None
Section 5(a)(14)-(16)	Peer reviews.	24

Section 5(a)(17)-(18)	Statistical tables on investigations.	21-22
Section 5(a)(19)	Investigations involving senior employees where allegations of misconduct are substantiated.	None
Section 5(a)(20)	Instances of whistleblower retaliation.	None
Section 5(a)(21)	Attempts by the establishment to interfere with OIG independence.	None
Section 5(a)(22)	Specified matters closed and not disclosed to the public.	None

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



On October 1, 2017, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) announced the official launch of [Oversight.gov](https://www.oversight.gov). This new website provides a “one stop shop” to follow the ongoing oversight work of all Inspectors General that publicly post reports.

Like the other OIGs, at the Legal Services Corporation we will continue to post our reports to our own website, [www.oig.lsc.gov](http://www.oig.lsc.gov), but with the launch of Oversight.gov, users can now sort, search, and filter the site’s database of public reports from all of CIGIE’s member OIGs, including the LSC OIG, to find reports of interest. In addition, the site features a user-friendly map to find reports based on geographic location, as well as contact information for each OIG’s hotline. Users can receive notifications when new reports are added to the site by following CIGIE’s new Twitter account, [@OversightGov](https://twitter.com/OversightGov).



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