



May XX, 2015

The Honorable Lamar Alexander  
Chairman  
Committee on Health, Education, Labor and Pensions  
United States Senate  
Washington, D.C. 20510

Dear Mr. Chairman:

The Office of Inspector General (OIG) of the Legal Services Corporation (LSC) has completed its Semiannual Report (SAR) to Congress for the period October 1, 2014 to March 31, 2015. I am transmitting the SAR to Congress as required by law, along with additional information provided by the LSC Board of Directors (Board).

Congress has entrusted LSC with a dual mission: to fund high-quality civil legal assistance to low-income Americans and to promote equal access to justice. In fulfillment of that mission, LSC funds 134 nonprofit organizations serving low-income clients in every state in the nation, the District of Columbia, and the U.S. territories.

As referenced in the SAR, LSC received a “clean opinion” with no significant deficiencies, material weakness, or reportable noncompliance issues for its 2014 financial statement audit report.

During the reporting period, LSC has taken the following actions to improve its performance, enhance fiscal responsibility, and leverage the federal investment in legal services with private support:

- **Technology Initiative Grants (TIG).** LSC awarded nearly \$3.5 million in technology grants in 2014. The grants will support a variety of initiatives, including user-friendly online tools for women veterans, mobile delivery of legal services for clients using text messaging, and video-conferencing technology that reaches low-income clients in rural areas. Since its start in 2000, LSC’s TIG program has funded 570 technology projects totaling more than \$46 million. [See full list of 2014 TIG Award Recipient List and Projects.](#)
- **First Midwest Legal Disaster Coordination Fund.** Using privately-raised funds, LSC awarded grants to Iowa Legal Aid and Legal Aid of Nebraska to develop coordinated plans among disaster preparedness organizations and legal service providers in the Midwest. These grants will help legal aid organizations address the need for civil legal aid in the aftermath of natural and manmade disasters, and integrate legal assistance into statewide disaster preparedness plans. [See more information about LSC’s Midwest Legal Disaster Coordination Project.](#) LSC works hard to leverage public funding with private contributions. These projects are an example of LSC’s success.

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- **New Grantee in American Samoa.** For the first time since 2007, LSC awarded a grant to a new legal aid program in American Samoa. LSC terminated funding to the previous grantee due to fraud. The new grantee, American Samoa Legal Aid, is a non-profit 501(c)(3) with a Board of Directors and four staff. The grantee began operations on May 1, 2015 and LSC has been providing technical assistance and support.

Pursuant to 5 U.S.C. App. 3 § 5(b)(2), the Corporation has attached a statistical table showing the total number of reports and the dollar value of disallowed costs, in addition to providing the following statements regarding OIG's audit reports referred to LSC, and an update on an investigative referral. During the audit period, LSC recovered a total of \$18,192 for disallowed costs referred by the OIG.

LSC has taken the following actions on the OIG audit reports referred to LSC during the reporting period:

- **Report on Selected Internal Controls–Legal Services NYC (Referred on October 16, 2014).** OIG referred \$196,387 in questioned costs to LSC management for LSC NYC's failure to properly allocate attorneys' fees to the LSC account. This amount was based on a sampling of records the OIG investigated. After further review of the actual records, LSC determined that \$286,946 should have been allocated to the LSC account. The program has agreed to transfer \$286,946 to the LSC account for the derivative income not properly allocated. LSC will also provide technical training to the grantee's management and staff on LSC's fiscal requirements, including how to properly allocate derivative income.
- **Report on Selected Internal Controls–Legal Aid of West Virginia (Referred on March 13, 2015).** OIG referred \$9,579 to LSC management, consisting of \$3,842 for improper allocation of attorneys' fees, \$5,094 for unallowable expenses (including membership dues, flower purchases, and late payment fees), and \$643 for unallowable credit card expenses). LSC is currently reviewing the OIG documentation.
- **Report on Selected Internal Controls–Community Legal Aid Services, Ohio (Referred on February 5, 2015).** OIG referred internal control issues to LSC management that do not include questioned costs. The OIG recommended that the program improve its physical inventory process to ensure compliance with LSC's Accounting Guide, ensure that the tracking system include non-capitalized assets such as computers and IT equipment, and revise its disbursement policy to ensure that only allowable expenses are charged to the LSC account. LSC is currently reviewing documentation submitted by the program regarding corrective actions taken in response to the OIG's findings.
- **Report on Selected Internal Controls–Northeast New Jersey Legal Services Corporation (Referred on March 30, 2015).** The OIG referred \$72,572 in questioned costs to LSC management. The OIG determined that the program failed to properly allocate Supplemental Security Income reimbursements and attorneys' fees to the LSC account. LSC is currently reviewing the OIG report and supporting documentation.

LSC closed the following OIG matters during the reporting period:

- **Report on Selected Internal Controls–Southern Arizona Legal Aid (Referred on September 11, 2014).** The OIG referred \$559 in questioned costs to LSC management. Because of the relatively small amount in question, LSC management conducted informal negotiations with the grantee rather than initiate a formal questioned-cost proceeding. As a result of the negotiations, LSC received a check for \$559 from the grantee on December 2, 2014. LSC considers this matter closed.
- **Report on Selected Internal Controls–Legal Services Alabama (Referred on June 11, 2014).** The OIG referred \$29,914 in questioned costs to LSC management. After reviewing the information submitted by the grantee, LSC issued a Notice of Questioned Costs for \$19,717 (consisting of \$3,605 for unallowable charges; 2,184 for unsupported charges; \$9,224 for insufficiently supported charges; and \$4,704 related to matching costs) on July 30, 2014. After considering the documentation provided in the grantee’s response to the questioned-costs notice, LSC issued a management decision on November 20, 2014 disallowing \$12,763. LSC management determined that the grantee provided sufficient documentation to support costs of \$6,954. The grantee did not file an appeal within the required period, so, LSC will recoup the \$12,763 from the grantee’s remaining grant payments in 2015. LSC considers this matter closed.
- **Report on Selected Internal Controls–Legal Aid Services of Oregon (Referred on July 2, 2014).** The OIG referred \$4,789 in questioned costs to LSC management. The amount in question related to local bar dues paid with LSC funds during 2009, 2010, and 2011. LSC investigated this referral during an on-site compliance review on October 6, 2014. As a result of that investigation, the program provided LSC with a check in the amount of \$3,648. The program was able to demonstrate that the remaining \$1,141 had been incurred in February and May 2009, outside of the five-year recoupment period allowed by 45 C.F.R. Part 1630. The OIG was informed of this resolution by email on October 17, 2014 and by memorandum on October 28, 2014. LSC considers this matter closed.
- **Report on Selected Internal Controls–Nevada Legal Services (Referred on August 18, 2014).** The OIG referred \$1,375 in questioned costs to LSC management. On October 17, 2014 the program submitted documentation countering the OIG’s findings. After informal negotiations, the program provided LSC with a check in the amount of \$1,222, and also provided evidence of policy amendments and trainings to ensure deficiencies noted by the OIG do not occur again. The remaining \$153 referred by the OIG for membership fees to a warehouse retailer to purchase office supplies was an allowable expense, and not subject to recovery. LSC considers this matter closed.

LSC has taken the following action on OIG audit reports that were referred to LSC before the reporting period:

- **Report on Selected Internal Controls–Legal Services of Northern Virginia, Inc. (LSNV) (Referred on October 6, 2011).** The OIG referral included recommended changes to LSNV policies and procedures but did not include any questioned costs. LSC received confirmation that the grantee has undertaken all necessary changes to its accounting manual and that a full property inventory and reconciliation to property accounts has been accomplished. LSC expects to conduct an onsite review in August 2015 to ensure that the necessary corrective actions have taken place.

LSC has made the following progress on OIG audit reports for which management decisions have been made but final action has not been taken:

- **Report on Selected Internal Controls–Capital Area Legal Services Corporation (CALSC) (Referred on September 27, 2010).** As previously reported, upon concluding that CALSC had misused LSC funds and committed other financial irregularities, LSC disallowed approximately \$467,619 of CALSC's costs. In 2011, LSC terminated CALSC's grant. CALSC later closed its business and filed for bankruptcy in the United States Bankruptcy Court for the Middle District of Louisiana. According to its filing, CALSC has \$316,987 in assets, only \$27,455 of which are liquid, and owes approximately \$1.1 million in known debts to 34 creditors, including LSC. LSC has filed two Proof of Claims in the bankruptcy proceedings: one to recover the disallowed amount of \$467,619, and one to recover, on a priority basis, the costs of administering CALSC's close-out, approximately \$30,000. Seven other creditors also filed claims. In total, \$736,899 has been claimed against CALSC. A hearing on the claims is expected to be held by year's end. An audit of CALSC's books, the final step in its grant close-out, is nearing completion.

On behalf of the Board, I want to take this opportunity to thank you for your support of LSC. If you have any questions or desire further information, please contact Treefa Aziz in LSC's Office of Government Relations and Public Affairs at 202-295-1614.

Respectfully yours,

John G. Levi  
Chairman

Enclosure

cc: The Honorable Patty Murray  
The Honorable Tom Marino  
The Honorable Hank Johnson  
Jeffrey E. Schanz, LSC Inspector General

**Statistical Summary of Audit Reports and Dollar Value of Disallowed Costs  
LSC Management**

Audit Reports	Number of Reports	Questioned Costs
A. Final action not taken by management at commencement of reporting period	5	\$523,637 <sup>1</sup>
B. Management Decisions made during reporting period	4	\$26,440 <sup>2</sup>
C. Final action taken during reporting period:		
1. dollar value of referred costs that were allowed by management	2	\$7,107 <sup>3</sup>
2. dollar value of referred costs that were disallowed by management	4	\$19,333 <sup>4</sup>
3. dollar value of disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise	4	\$18,192 <sup>5</sup>
4. dollar value of disallowed costs that were written-off by management	1	\$1,141 <sup>6</sup>
D. No final action taken by management at end of reporting period	5	\$765,538 <sup>7</sup>

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<sup>1</sup> This includes the questioned cost referrals relating to Southern AZ Legal Services (\$559), Legal Services Alabama (\$29,914), Legal Aid Services of Oregon (\$4,789), and Nevada Legal Services (\$1,375) and audit from previous period Capital Area Legal Services Corporation (\$487,000).

<sup>2</sup> This includes OIG audit reports relating to Southern AZ Legal Services (\$559), Nevada Legal Services (\$1,375), Legal Services Alabama (\$19,717), and Legal Services of Oregon (\$4,789).

<sup>3</sup> This includes audit reports relating to Nevada Legal Services (\$153), Legal Services Alabama (\$6,954).

<sup>4</sup> This includes the closure of OIG audits relating to Southern AZ Legal Services (\$559), Nevada Legal Services (\$1,222), Legal Services Alabama (\$12,763), and Legal Aid Services of Oregon (\$4,789).

<sup>5</sup> This includes OIG audit reports relating to Southern AZ Legal Services (\$559), Nevada Legal Services (\$1,222), Legal Services Alabama (\$12,763), and Legal Aid Services of Oregon (\$3,648).

<sup>6</sup> Legal Services of Oregon (\$1,141) because outside of the 5-year recoupment period.

<sup>7</sup> This includes the new audit reports Legal Services NYC (\$196,387), Legal Aid of West Virginia (\$9,579), Northeast New Jersey Legal Services (\$72,572), Community Legal Aid Services (\$0) and audit from previous period Capital Area Legal Services Corporation (\$487,000).