

Office of Inspector General

USE OF FUNDS FOR PROHIBITED OR RESTRICTED ACTIVITIES FINANCIAL RELATED AUDIT

Grantee:

**Legal Assistance Foundation of Chicago
Chicago, Illinois**

Recipient No. 514020

Final Audit Report No. AU96-064B

September 1997

INTRODUCTION

In Public Law 104-134 [110 Stat. 1321 (1996)], the 1996 appropriation for the Legal Services Corporation (LSC), Congress imposed restrictions and prohibitions on the types of services LSC grantees may provide to clients and on the methods they may employ in providing those services. The law required the grantees to discontinue servicing certain types of cases immediately. It also required grantees to divest of three other types of cases (class actions, prisoner litigation, and alien representation) no later than July 31, 1996. Congress required LSC to report whether grantees had divested of these cases within the time allotted.

In order to provide the LSC Board of Directors, management, and Congress with an independent assessment of the grantees' compliance with the new law, the LSC Office of Inspector General (OIG) initiated two types of limited scope audits covering 12 grantees. A performance audit tested: (1) whether grantees had divested of the prohibited cases and were providing only those legal services permitted in restricted cases; and (2) whether the selected grantees had implemented the policies and procedures to ensure that case-related activities were within the new law. A financial related audit was designed to determine whether selected grantees were supporting prohibited or restricted activities through the grantee or alternative organizations. Legal Assistance Foundation of Chicago (LAFC) was included in both the performance and the financial related audits. This report presents the results of the financial related audit of LAFC.

BACKGROUND

LAFC received \$4,599,771 in Fiscal Year 1996. LAFC's main office is located in Chicago, Illinois, and there are four branch office and four satellite office locations. As of the date of field

work, LAFC employed, in addition to the Executive Director, approximately 55 attorneys, 35 paralegals, and 49 other staff.

OBJECTIVES

The specific objectives of the financial related audit were to determine whether:

- LAFC used funds to pay other legal organizations to handle prohibited or restricted cases;
- current employees, terminated employees, or consultants continued to work on restricted or prohibited cases and received LSC funds for their services after restrictions and prohibitions took effect; and
- timekeeping records indicated continued involvement in restricted or prohibited cases after LAFC ceased official involvement with the cases.

SCOPE AND METHODOLOGY

The financial related audit of LAFC was conducted in accordance with generally accepted government auditing standards. Field work was performed during two visits to the office in Chicago, Illinois from December 9-11, 1996 and from January 27-31, 1997. Audit procedures included interviews with LSC and LAFC personnel, review of LAFC policies and procedures, and examination of LAFC records.

FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

With regard to the specific objectives detailed above, we provide the following findings.

- We found no evidence that LAFC used funds to pay other organizations to handle prohibited or restricted cases. However, we did note that LAFC made an allowable transfer of non-LSC funds during the transition period immediately following the enactment of Public Law 104-134.
- We found no evidence that terminated employees or consultants continued to work on restricted or prohibited cases and received LSC funds for their services after restrictions and prohibitions took effect.
- We found no evidence in the timekeeping records to indicate that current employees continued involvement in restricted or prohibited cases after LAFC was required to cease official involvement with the cases, except for those instances identified in the performance audit report.

GRANTEE MANAGEMENT RESPONSE TO DRAFT AUDIT REPORTS

LAFC did not provide any written comments on the first draft financial related audit report. LAFC provided written comments on both the second draft performance audit report and the second draft financial related audit report in one combined response, but the response did not include any comments on the second draft financial related audit report. The complete text of the response to the second draft financial related audit report is included in [Appendix I](#).



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Sheldon H. Roadman
Executive Director

December 8, 1997

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Alexis M. Stowe
Asst Inspector General
for Audit
Legal Services Corporation
750 First Street, NE
Washington, DC 20002

Dear Ms. Stowe:

In response to your letter dated November 25, 1997, and the 2nd Draft of the Performance Audit and Financial Audit, I have the following comments:

1. With regard to the Draft Performance Audit, there is a typo on page 2 in the last paragraph. It should be January 30, 1997, instead of January 30, 1996.
2. We continue to believe that our activities in the Bell and Hill cases were permissible under various LSC class action regulations that had been promulgated.

With regard to the Bell case, there was not an adversarial discussion concerning the dollar amount of the settlement as you state on page 5. Instead, the parties had already agreed to the amount each member of the class would receive and when it was determined there were more members of the class than previously understood, the amount of the settlement increased proportionately. Attached is a letter from the lawyer for the defendants which states as follows:

You have requested that I confirm that our discussions regarding the Joint Motion to Approve Revised Notice and Stipulation, filed on October 15, 1996, in the above-captioned lawsuit, were non-adversarial in nature. I agree. As we stated in the Joint Motion, "[r]aising of the floor and ceiling of the Fund corresponds to the underlying formula embodied in the

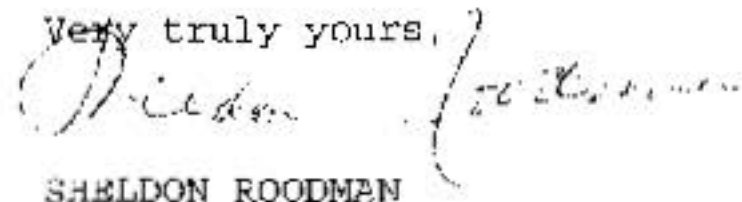
Alexis M. Stowe DTG
December 8, 1997
Page Two

Settlement Agreement between Plaintiffs and Wesco." (Motion, at 2) I believe this statement appearing in the Joint Motion itself, illustrates that our discussions were non-adversarial and that the Court, in granting the Joint Motion, confirms that conclusion.

In the Hill case, we filed "Plaintiffs' Statement on the Status of the Status of the Two-Year Report on October 3, 1996. Our report was merely to inform the Court whether the provisions of the consent decree were being met. We did not view this document as adversarial. We withdrew from the case on December 3, 1996. Our good faith interpretation of the regulation does not seem worthy of further review, especially in light of our withdrawal on December 3, 1996.

We believe that LSC management should not take any corrective action with regard to these two cases.

Very truly yours,



SHELDON RODMAN

SHR:egh

Attachment

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December 5, 1997

VIA TELECOPIER

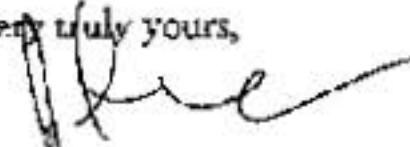
Vivian R. Hessel
Legal Assistance Foundation of Chicago
343 South Dearborn Street
Chicago, Illinois 60607

Re: Bell and Woods v. Commercial Credit Loans, Inc. and Wesco Insurance Co.
No. 93 CH 5943

Dear Vivian:

You have requested that I confirm that our discussions regarding the Joint Motion to Approve Revised Notice and Stipulation, filed on October 16, 1996, in the above-captioned lawsuit, were non-adversarial in nature. I agree. As we stated in the Joint Motion, "[r]aising of the floor and ceiling of the Fund corresponds to the underlying formula embodied in the Settlement Agreement between Plaintiffs and Wesco." (Motion, at 2). I believe this statement, appearing in the Joint Motion itself, illustrates that our discussions were non-adversarial and that the Court, in granting the Joint Motion, confirms that conclusion.

Very truly yours,


Jonathan N. Ledsky

JNL/dlu
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