



ADVISORY

TO: All Executive Directors
FROM: Helaine M. Barnett *AMB*
DATE: March 20, 2008
SUBJ: Fiscal Management and Use of LSC Funds

As you know, the Government Accountability Office ("GAO") recently released a report entitled *Legal Services Corporation: Improved Internal Controls Needed in Grants Management and Oversight* (December 2007, GAO-08-37). While LSC's review of the GAO's findings has not yet been completed, this Advisory is intended to highlight those issues that LSC is able to provide clarity on at this time.

There were several issues included in the report regarding LSC's internal systems for grants management and oversight. LSC is addressing these GAO findings to improve our grants management and oversight functions, including implementation of a revised report format and a more timely issuance of reports to programs.

GAO also noted a number of instances of "improper and potentially improper" expenditure of funds by grantees. See GAO Report at 3. In particular, the GAO reported finding at nine LSC grantees improper or potentially improper "expenditures with insufficient supporting documentation and [expenditures] for unusual contractor arrangements, alcohol purchases, employee interest-free loans, lobbying fees, late fees, and earnest money." *Id.* at 4. Those matters concerning eight LSC grantees have been referred to LSC's Inspector General, and the ninth program was already under review by LSC's Office of Compliance and Enforcement.

Although we know that you are already well aware of the importance of LSC grantees ensuring that LSC grant funds are used in strict compliance with all of the requirements and restrictions which attach to those funds, this Advisory is sent to all LSC grantees as a general reminder.

- **Documentation:** Ensuring the proper documentation of the expenditure of LSC grant funds is as important as ensuring proper expenditure of those funds. The utmost care must be given to fiscal management issues so that programs avoid not only making improper expenditures, but even the appearance of making improper expenditures. As you know, public funds are a limited resource and our collective credibility as responsible stewards of those public funds is vital to ensuring that Congress continues to invest taxpayer dollars in our grantees and their work. Travel expenses, credit card and other payments must always be supported by appropriate documentation.

- **Unallowable Costs:**

- **Lobbying fees.** Specifically, you are reminded that no LSC funds may be expended on any restricted activities, such as lobbying (see 45 CFR §1612.3).
 - **Penalties.** Good financial management systems will prevent incurring unnecessary and unreasonable expenses such as penalties for late payment of employer withholding taxes (see 45 CFR §1630.2(g)(3)).
 - **Alcohol.** LSC applies the prohibition on the use of LSC funds for the purchase of alcohol found in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, # 2 (page 11).
(<http://www.whitehouse.gov/OMB/circulars/a122/a122.html>)
- **Salary Advances:** GAO referred to salary advances as “interest-free loans.” While providing salary advances is not prohibited, if programs choose to do so, it is important that they have written policies and procedures governing such advances and timely repayments.
 - **Derivative Income:** Income from any activity supported in whole or in part by LSC funds must be allocated proportionally to the LSC account (see 45 CFR §1630.12 (a)). (For example, the GAO referred to earnest money from a real estate transaction that was forfeited but not allocated to the LSC account).

You are also always welcome and encouraged to consult with the LSC Office of Compliance and Enforcement regarding allowable costs and other similar questions you may have.

Thank you for your continued work in support of access to justice for low-income clients. We are confident that you will continue to be responsible stewards of taxpayer dollars.