



Office of Inspector General  
Legal Services Corporation

Acting Inspector General  
Roxanne Caruso

3333 K Street, NW, 3rd Floor  
Washington, DC 20007-3558  
202.295.1660 (p) 202.337.6616 (f)  
www.oig.lsc.gov

## MEMORANDUM

**To:** Ron Flagg  
President, Legal Services Corporation

**From:** Roxanne Caruso *Roxanne Caruso*  
Acting Inspector General & Assistant Inspector General for Audit

**Date:** July 26, 2022

**Subject:** Final Report – LSC’s Distribution, Use, and Oversight of CARES Act Funds  
(Report No. AU 22-02)

---

Attached is the final report on the results of our audit on LSC’s Distribution, Use and Oversight of CARES Act Funds. Appendix II includes management’s entire response to the OIG’s Draft Report.

The OIG considers the actions to address Recommendations 2, 4, and 5 as fully responsive. These three recommendations are considered closed.

The OIG considers the proposed actions to Recommendations 1, 3, and 6 as partially complete. To close Recommendations 1, 3, and 6, please send a response, along with the supporting documentation detailed on page 16. We thank you and your staff for your cooperation and look forward to receiving your submission on or before January 26, 2023.

### Attachment

cc: Lynn Jennings, Vice President for Grants Management  
Carol Bergman, Vice President for Government Relations, and Public Affairs  
Will A. Gunn, General Counsel, and Vice President for Legal Affairs  
Debbie Moore, Chief Financial Officer

Lora M. Rath, Director of Compliance and Enforcement  
Joyce McGee, Director of Program Performance

LSC Board of Directors

John G. Levi, Board Chair  
Father Pius Pietrzyk, O.P., Board Vice Chair  
Robert J. Grey, Jr.  
Mathew Keenan  
Abigail Lawlis Kuzma  
Victor B. Maddox  
John G. Malcolm  
Laurie Mikva  
Frank X. Neuner, Jr.  
Julie A. Reiskin  
Gloria Valencia-Weber

LSC Board – Non-Director Committee Members

Robert E. Henley, Jr.  
David Hoffman  
Paul Snyder  
Rebecca Rapp  
Allan Tanenbaum  
Ralph Baxter  
Judge Jonathan Lippman  
Thomas Smegal  
Frank Strickland

# LEGAL SERVICES CORPORATION



## OFFICE OF INSPECTOR GENERAL

**Final Report on Audit of LSC's Distribution, Use, and Oversight of  
CARES Act Funds**

---

**Report No. AU 22-02**

**July 2022**

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

## TABLE OF CONTENTS

INTRODUCTION .....	1
OBJECTIVES.....	1
BACKGROUND .....	2
HOW WE CONDUCTED THE AUDIT .....	4
AUDIT RESULTS.....	6
ACCOMPLISHMENTS .....	6
OPPORTUNITIES FOR IMPROVEMENT .....	9
INADEQUATE DOCUMENTATION .....	9
CONCLUSION AND RECOMMENDATIONS .....	15
Recommendation 1 .....	15
Recommendation 2 .....	15
Recommendation 3 .....	15
Recommendation 4 .....	15
Recommendation 5 .....	15
Recommendation 6 .....	15
OIG EVALUATION OF LSC MANAGEMENT COMMENTS .....	16
APPENDIX I: ASSESSMENT OF INTERNAL CONTROL COMPONENTS AND PRINCIPLES	17
APPENDIX II: LSC MANAGEMENT COMMENTS .....	19

## INTRODUCTION

The Legal Services Corporation (LSC) Office of Inspector General (OIG) conducted an audit to assess LSC's distribution, use, and oversight of Coronavirus Aid, Relief, and Economic Security (CARES) Act Funds, enacted on March 27, 2020.

In the CARES Act, the United States Congress appropriated \$50 million to LSC to "prevent, prepare for, and respond to coronavirus, domestically or internationally." LSC granted most of this funding to LSC recipients for civil legal services use resulting from the Coronavirus Disease 2019 (COVID-19) pandemic.

Our audit focused on LSC's methodology and internal controls over the distribution, utilization, and oversight of the CARES Act Funds to determine if they were consistent with the CARES Act requirements, LSC policies and procedures, and other applicable regulations.

LSC documented policies, guidelines, and restrictions on CARES Act Funds in: 1) *COVID-19 Response Grant, Special Grant Terms and Conditions* (COVID-19 Grant Terms and Conditions), 2) *Telework Capacity Building Special Grant Terms and Conditions* (Telework Grant Terms and Conditions) 3) LSC and CARES Act Reporting Requirements (Reporting Requirements), 4) COVID-19 related Frequently Asked Questions, and 5) other COVID-19 recipient communications. The CARES Act did not include a time limit to expend the funds. LSC encouraged its recipients to prioritize spending CARES Act Funds over traditional Basic Field Grants.

## OBJECTIVES

Our audit had three objectives:

- I. Determine whether LSC's distribution and oversight activities, policies, and procedures for CARES Act funding were adequate to ensure proper use and monitoring of funds.
- II. Evaluate if the internal controls for LSC oversight and recipient reporting were designed and implemented to ensure that CARES Act Funds were expended in a manner consistent with the intent of the grant.
- III. Determine if LSC had measures in place to evaluate the outcomes and effectiveness of the grant.

## BACKGROUND

LSC is the single largest funder of civil legal aid for low-income Americans. Its 132 recipients assist in various civil legal issues in all 50 states and US territories. Most cases handled by LSC recipients focus on family law, domestic violence, and housing issues such as evictions and foreclosures. In 2020, LSC-funded programs closed nearly 659,000 civil legal cases nationwide; however, demand for legal aid outstrips the resources available. According to LSC's 2021 Intake Census, low-income individuals likely seek legal help from LSC-funded organizations for more than 1.9 million problems annually. Seven out of every ten or 71 percent of these problems will either not receive any legal help or not receive enough legal help to be fully resolved<sup>1</sup>.

The outbreak of COVID-19 and the accompanying economic hardships have increased the need for civil legal services, making LSC's mission and services more important than before<sup>2</sup>. In 2020, Congress appropriated \$440 million for LSC. LSC calculated a cost of approximately \$2.5 billion for its recipients to meet the legal needs of low-income Americans at risk of eviction.

On March 27, 2020, the CARES Act was signed into law. The Act provided \$50 million to LSC. Of this amount, LSC distributed \$47.1 million to LSC recipients for COVID-19 Supplemental Grants; distributed \$2.4 million for Telework Capacity Building Grants, designed to help recipients operate remotely; and placed \$500,000 in reserve for LSC Management and Grants oversight (MGO) to offset administrative costs. The MGO funds were used for financial controls, technical assistance on the Telework Capacity Building Grants, grant allocations, fiscal oversight, and reporting.

LSC set a minimum funding level of \$25,000 for COVID-19 Supplemental Grants and used the Department of Labor Unemployment Insurance weekly advance initial state claims data to calculate funding allocations. The COVID-19 Supplemental Grant awards were between \$25,000 and \$1.85 million. The Telework Capacity Building Grants were awarded based on grant applications. Each recipient could apply for up to \$25,000 to "improve or expand their telework and remote access capabilities to better serve low-income populations during a time of recommended or required telework." Out of 132 LSC recipients, 126 applied and were awarded Telework Capacity Building Grants.

---

<sup>1</sup> LSC. (April 2022). *The Justice Gap: The Unmet Civil Legal Needs of Low-income Americans*. Prepared by Mary C. Slosar, Slosar Research, LLC. <https://justicegap.lsc.gov/the-report/>

<sup>2</sup> LSC OIG. (2021, March). *Challenges Facing The Legal Services Corporation Covid-19 Response Grant - White Paper*. [https://www.oig.lsc.gov/images/pdfs/AR/LSC\\_OIG\\_White\\_Paper\\_Issued\\_03-02-2021.pdf](https://www.oig.lsc.gov/images/pdfs/AR/LSC_OIG_White_Paper_Issued_03-02-2021.pdf)

CARES Act Funds could be used for activities that were affected by, or became necessary because of, the COVID-19 pandemic. Funds were also subject to restrictions placed on LSC grants under the LSC Act, Code of Federal Regulations, and other applicable regulations and guidance.

LSC primarily monitored the use of CARES Act Funds through recipient-submitted quarterly reports. The reports were due no later than ten days following the end of each quarter. The first report was due July 20, 2020, and the final report was due by October 10, 2021.

## HOW WE CONDUCTED THE AUDIT

To address the audit objectives, the OIG reviewed and evaluated LSC's Office of Finance and Administration (OFAS), Office of Compliance and Enforcement (OCE), and Office of Program Performance (OPP), policies and procedures over the distribution, oversight, and monitoring of CARES Act Funds. Our audit covered the period from March 1, 2020, to April 30, 2021. Our work included testing the COVID-19 Supplemental Grants, Telework Capacity Building Grants, and funds used for MGO activities.

Audit fieldwork was conducted from June 15, 2021, to March 16, 2022. Due to pandemic safety concerns, all work was conducted remotely. Interviews and other meetings were conducted via remote video conferencing. Documentation was submitted electronically to the OIG.

We interviewed key LSC personnel involved in those activities and performed testwork on the CARES Act Funds distribution, oversight, and internal controls. We reviewed LSC management and recipient reports, reporting instructions, payroll transactions, and LSC purchases made with CARES Act Funds. We also surveyed all LSC recipients to obtain information on LSC's distribution of funds and the recipients' experiences with the reporting system.

We used a stratified judgmental sample to select a sample of ten recipients for further testing. Our review included 40 reports from the quarters ended June 30, September 30, December 31, 2020, and March 31, 2021. We assessed the timeliness and completeness of recipient reports and whether spending was on target with expectations. We also assessed LSC reviews and approvals of recipient reports, transactions, and activities. The LSC recipients we tested received a combined \$6.95 million, or 14 percent of the total of \$49.5 million in CARES Act Funds grants.

To test internal controls over the oversight and monitoring of MGO funds, we selected a sample of LSC employee timesheets with payroll charged to CARES Act Funds. Using random sampling, we selected and tested three of 23 semi-monthly payroll period timesheets. The three sampled pay periods contained a total of 13 LSC employees with 27 timesheets that had pay charged in part to LSC CARES Act Funds. We tested all 13 employees and 27 timesheets. The tested timesheets included charges of \$18,644 of CARES Act Funds or 28 percent of the total \$66,947 charged to LSC payroll. We traced the total amount of CARES Act payroll funds to LSC's general ledger, tested the timesheets to ensure accurate and reasonable time recording, and evaluated whether timesheets were approved.

We also tested a sample of contract invoices paid with MGO funds to ensure LSC management appropriately used the funds and adequately documented the transactions.



There was a total of six contracts; we judgmentally sampled one invoice from each contract with highest dollar value for testing. Our sample made up \$62,376 or 83 percent of the \$75,334 in contract invoices charged to MGO funds.

On November 9, 2021, we distributed a survey to all 132 LSC recipients<sup>3</sup>. Our survey was designed to obtain feedback on CARES Act Funds to 1) confirm the amounts of CARES Act Funds received by the recipients and 2) obtain recipient feedback on LSC instructions and the CARES Act Funds reporting process.

Our survey was open from November 9 through 16, 2021, and we received 66 responses (a 50 percent response rate). While the survey allowed us to aggregate overall satisfaction or concern, we also requested narrative responses to help identify areas for improvement. Aggregate and narrative survey results are included in relevant sections throughout this report.

To assess the reliability and completeness of computer-generated data, we traced grant award amounts between approved calculations spreadsheets, LSC's accounting system, and bank statements. We determined that the data and reports were sufficiently reliable and complete for the purposes of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The OIG assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objectives. We assessed the internal control components and underlying principles determined to be significant to the audit objectives as shown in Appendix I: Assessment of Internal Control Components and Principles. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Additionally, we assessed whether it was necessary to evaluate information systems controls. We determined that information systems controls were significant to the audit objectives and evaluated such controls related to specific operations, oversight, and fiscal accountability. Our performance audit included performing audit procedures for information systems controls to obtain sufficient, appropriate evidence to support and document our findings and conclusions.

---

<sup>3</sup> Originally ten recipients were chosen from our previously described sampling methodology, and we sent surveys to each of these recipients on October 5, 2021. All ten recipients responded by the deadline of October 13, 2021. To obtain a broader consensus of recipient opinions, we expanded the survey to all recipients. On November 9, 2021, we distributed the survey to the remaining 122 recipients. An additional 56 recipients responded by the deadline of November 16, 2021. In total, 66 recipients, or 50 percent responded to the survey.

# AUDIT RESULTS

## ACCOMPLISHMENTS

To assist low-income Americans with pandemic civil legal challenges, LSC distributed \$47.1 million of COVID-19 Supplemental Grant funds to all 132 recipients. LSC distributed \$2.4 million for Telework Capacity Building Grants to 126 recipients and LSC reserved \$500,000 for management and grants oversight.

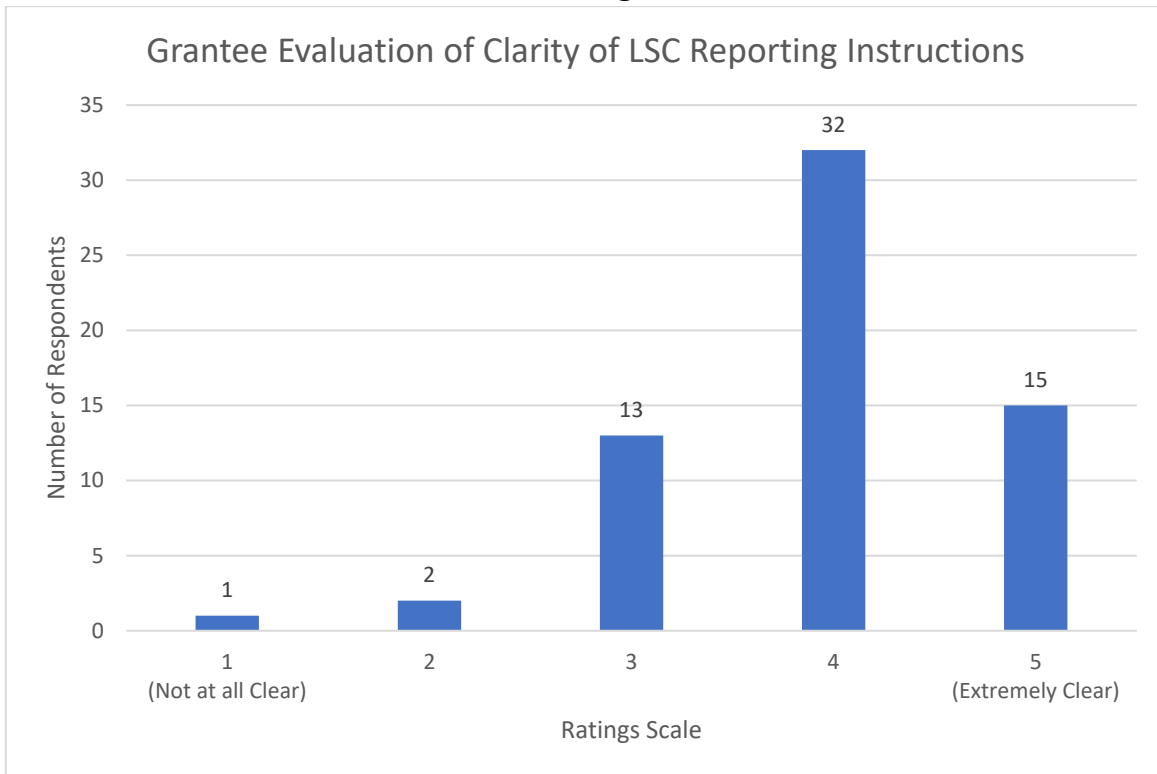
For Objective I, we determined that LSC's distribution and oversight activities for CARES Act funding were adequate to ensure proper use and monitoring of funds. LSC's allocation methodology for distribution of COVID-19 Supplemental Grant funds was researched and documented. LSC analyzed various allocation methods to distribute the COVID-19 Supplemental Grant funds. LSC chose a method based on the distribution of poverty population and aggregated data from the Department of Labor's Unemployment Insurance weekly advance initial state claims. To distribute the Telework Capacity Building Grant, LSC developed an application process. LSC released the application on March 27, 2020, with a submission deadline of April 2, 2020. LSC assigned a regional program liaison and a Technology Initiative Grant (TIG) team member to review each application.

For Objective II, we found that the internal controls for LSC's oversight of recipients' reporting were generally adequately designed and implemented to ensure CARES Act Funds were expended consistent with the COVID-19 Supplemental Grant and Telework Capacity Building Grant COVID-19 Grant Terms and Conditions. These COVID-19 Grant Terms and Conditions have requirements specific to these grants and standard requirements applicable to all Special Grants and Basic Field Grants. One requirement was quarterly reporting to LSC about the use of CARES Act Funds. LSC's review of recipients' quarterly reports was an oversight tool to monitor how funds were used. LSC recipients were required to report the total amount of funds expended and obligated. Additionally, they were also required to report data on cases closed with LSC funds, jobs created with LSC funds, and purchases with LSC funds.

According to the CARES Act, LSC was required to submit quarterly reports on the use of the CARES Act Funds to the Pandemic Response and Accountability Committee (PRAC). To compile the data for these reports, LSC required recipients to self-report information on the use of these funds, both to meet the PRAC reporting requirements and for LSC's monitoring. LSC provided recipients a document titled Reporting Requirements. The document gave recipients instructions on the information they would be expected to self-report in an electronic reporting system. The electronic reporting system was part of a relatively new LSC grants management and data system.

To obtain feedback on the electronic reporting system’s ease of use and the clarity of the self-reporting instructions, we sent out a survey to all LSC recipients. The survey used a scale of one to five, with five being extremely clear and one not at all clear. Of the 66 recipients who responded and answered questions about the clarity of LSC’s reporting instructions, we found that 75 percent of respondents scored the instructions as four or five. Only one respondent gave the lowest rating of not at all clear. See Figure 1.

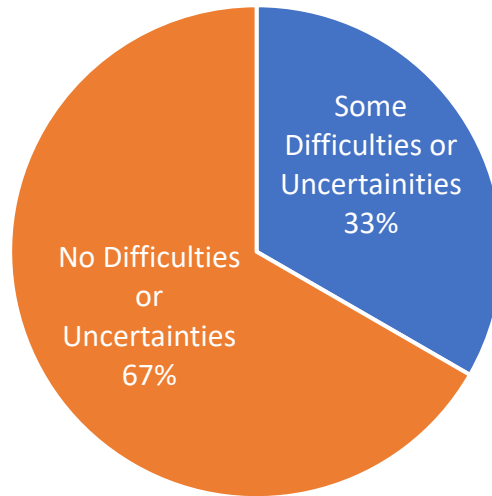
**Figure 1**



Our survey also found that two-thirds of respondents did not have difficulties or uncertainties in the reporting process. See Figure 2.

**Figure 2**

Grantees Reporting Difficulties or Uncertainties in the Reporting Process



For Objective III, we found that in general LSC has measures in place to evaluate the results and effectiveness of CARES Act Funds. For instance, LSC reviewed COVID-19 Supplemental Grant quarterly reports from its recipients. LSC refers to the quarterly reports to determine the amount obligated, expensed, and results from case closures. LSC liaisons communicate with recipients monthly for follow-up and to mitigate any concerns. LSC also incorporated existing procedures for oversight of the CARES Act Funds through compliance, training, and financial statement reviews.

## OPPORTUNITIES FOR IMPROVEMENT

### INADEQUATE DOCUMENTATION

We found that all ten tested recipients submitted the required COVID-19 Supplemental Grant quarterly reports for LSC's Office of Program Performance (OPP) review and approval. However, four recipients submitted two late quarterly reports each; the late submissions ranged from 2-41 days past the deadline. One recipient submitted three late quarterly reports; the late submissions ranged from 5-361 days past the deadline. See Figure 3.

**Figure 3**  
**Late Quarterly Report Submissions**

Recipient	Quarterly Report Deadline	Days Late
A	10/10/2020	2
	1/20/2021	4
B	7/20/2020	9
	10/10/2020	17
C	7/20/2020	10
	4/10/2021	41
D	7/20/2020	361
	10/10/2020	67
	1/10/2021	5
E	7/20/2020	8
	10/10/2020	13

LSC's OPP stated they approved extensions for the eleven late quarterly reports. However, they did not keep documentation for the approvals and were not able to provide supporting documentation for the approvals to the OIG. LSC points-of-contact stated they approved the extensions by email or phone. In addition, LSC's OPP *Policies and Procedures Manual* does not include procedures to maintain documentation to review and approve reports for special purpose, disaster, or other similar grants such as COVID-19 Supplemental Grants.

LSC's COVID-19 Grant Terms and Conditions state that this type of grant automatically terminates if a recipient fails to timely submit a required quarterly report or final report, unless LSC, in its sole discretion, grants an extension of time in which to submit the report. It would be difficult for LSC to determine if the recipient is in violation of the COVID-19 Grant Terms and Conditions without documentation approving extension requests.

The Government Accountability Office (GAO) 14-704G, *Standards for Internal Control in the Federal Government*, Documentation of Internal Control System<sup>4</sup> states that management develop and maintain documentation of its internal control system. Effective documentation assists in management’s design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge to mitigate the risk of having that knowledge limited to a few personnel, as well as to communicate that knowledge as needed to external parties, such as external auditors.

**UNCLEAR REPORTING INSTRUCTIONS**

In our testwork we found discrepancies between the self-reporting instructions issued to LSC recipients in the Reporting Requirements and the information to be input into the electronic reporting system. There were some differences between the information to be reported per the Reporting Requirements and the information to include in the electronic reporting system.

The survey we issued to LSC recipients included an open-ended question asking recipients to describe their thoughts on the clarity of LSC’s reporting instructions and to provide suggestions to improve the reporting process. While most respondents noted no difficulties or uncertainties in the reporting process, thirty-six recipients gave suggestions for improvements or noted issues they encountered. The most frequently noted areas discussed are summarized in Figure 4:

**Figure 4**  
**Summary of Areas Discussed by Recipients**

<b>Recipient-Identified Issue</b>	<b>Number of Respondents Who Identified this Issue</b>	<b>Percent of Total Respondents</b>
Difficulty w/ Case Reporting	8	12%
Issues w/ using the electronic reporting system	8	12%
Confusion on how to report the two different COVID grants	6	9%
Confusion on how/what to report when all grant funds were spent	5	8%
Confusion on whether the reported numbers were to be cumulative	4	6%

<sup>4</sup> LSC OIG used the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (GAO-14-704G) as criteria and included as best practice in the report section “Opportunities for Improvement.”

Recipient-Identified Issue	Number of Respondents Who Identified this Issue	Percent of Total Respondents
Confusion on the difference between spent vs. committed funds	3	5%
Other Issues	9	14%

In our review of the self-reporting instructions in the Reporting Requirements we noted that the guidance stated that recipients should report funding amounts for the COVID-19 Supplemental Grant, Telework Capacity Building Grant, and the two grants combined. However, there was no distinction between these two types of grants in the electronic reporting system. Nine percent of the respondents of our survey noted confusion on how to report the different COVID grants.

LSC personnel stated that they tried to align the data collection tools with the Reporting Requirements. However, they also needed to provide recipients with guidance as soon as possible. Therefore, reporting instructions were quickly issued, and they tried to ensure the process went smoothly for recipients. In some cases, there could not be 100 percent alignment between the self-reporting instructions and the electronic reporting system.

The *Accounting Guide for LSC Recipients*, Section 3-5, Information and Communication, states that relevant information is identified, captured, and communicated in a form and timeframe that enables recipients to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.

The Government Accountability Office (GAO) 14-704G, *Standards for Internal Control in the Federal Government*, Documentation of Internal Control System, Section 15.01 states that “management should externally communicate the necessary quality information to achieve the entity’s objectives.”

Unclear reporting instructions can cause confusion among recipients who are compiling data and using the electronic reporting system. This confusion can lead to errors in reporting or missed deadlines, as well as the inefficient use of time if recipients struggle to understand the instructions or reach out to LSC for further guidance.

**OUTDATED POLICIES AND PROCEDURES**

We reviewed the following LSC Policies and Procedures that apply to the oversight and use of CARES Act Funds:

- Office of Financial and Administrative Services *Accounting Procedures Manual* – Revised 2016 (OFAS Manual).

- *Office of Compliance and Enforcement Policies and Procedures Manual* – Last Updated 2018 (OCE Manual)
- *Office of Program Performance Office Procedures Manual* – 2014 Edition (OPP Manual)
- *LSC Administrative Manual* – Revised 2020 (Administrative Manual)

In Fall of 2021, we reviewed the draft 2021 OFAS Manual to obtain a sufficient understanding of the revisions to the current processes and procedures related to the audit objectives. All four published manuals and the draft 2021 OFAS Manual contain detailed policies and procedures. However, the four, published manuals need to be updated for current practices in each of the departments.

*Office of Financial and Administrative Services Accounting Procedures Manual*

The OFAS Manual did not include written procedures for bank account verification methods prior to the disbursement of funds or procedures for when there are changes to recipients' banking information.

In 2021, LSC implemented a bank account change process that is outlined in the draft update to the OFAS Manual. The published OFAS Manual predates this new process. Currently, OFAS uses a portal for banking related requests from recipients. Recipients make changes to banking information in this portal, which is then uploaded to LSC's accounting system. According to the CFO/Treasurer of OFAS, updates to the OFAS Manual were still in process during the time of the audit.

*Office of Compliance and Enforcement Policies and Procedures Manual*

The OCE Manual was last updated in February of 2018. It contains detailed policies and procedures for LSC recipient oversight activities, including in-depth Compliance Reviews. However, the OCE Manual is not current. The table of contents notes that many sections either “need[s] updating” or are “being designed.” Elsewhere in the document, several of the sections describing specific Compliance Review processes are labeled as “place holders” to be updated when more comprehensive fiscal policies are finalized.

Sections relevant to OCE oversight of CARES Act Funds labeled as "needs updating" include policies and procedures related to:

- Audit Report Reviews
- Technical Assistance Reviews
- Follow Up Reviews

Sections related to OCE oversight of CARES Act Funds labeled as "being designed" include:



- Technical Assistance
- Fiscal Internal Control
- Focused Fiscal Reviews

Sections relevant to OCE oversight of CARES Act Funds labeled as "place holders" include policies and procedures to conduct fiscal reviews. Other policies noted as "place holders" include reviews of recipient internal controls over compliance with laws, regulations and policies, and reviews of communications with the recipient's fiscal liaison.

We also noted that:

- the OCE Manual includes a risk assessment matrix to help select recipients for Compliance Reviews. The matrix incorporates consideration of some LSC grants but does not include Special Purpose or Disaster Grants.
- the OCE Manual contains references to C.F.R. 1630 that are outdated. Section 15.11(I) of the OCE Manual refers to C.F.R. 1630.7 when discussing questioned costs; however, questioned costs are covered in section C.F.R § 1630.11.

The OCE Director is aware that the manual is outdated and is planning to update it in 2022.

#### *Office of Program Performance Office Procedures Manual*

The OPP Manual was last updated in 2014. Through interviews and testwork we found that OPP does have procedures in place for oversight of Disaster Program funds, including CARES Act Funds, but these procedures are not documented in the OPP Manual.

The OPP Director acknowledged that the manual is outdated and stated she plans to update it in 2022. The Director had planned to update the manual starting in 2019, but the update was delayed by the transition to the new grants management system and other priorities.

#### *LSC Administrative Manual*

The Administrative Manual available during our fieldwork was last updated in February of 2020<sup>5</sup>. We noted that the Administrative Manual contains detailed contracting policies and procedures. However, LSC has moved to a system of using NetSuite for electronic approvals of contract actions that is not documented in the Administrative Manual. As a result, the Administrative Manual is not reflective of current LSC procedures.

---

<sup>5</sup> Our audit covered the period from March 1, 2020, to April 30, 2021. The audit fieldwork was conducted from June 16, 2021, to March 16, 2022.

LSC Management stated that the Administrative Manual is currently being updated and will address the identified changes. Further, the procurement policies have not significantly changed with NetSuite, but the process is automated.

The *Standards for Internal Control in the Federal Government*, Documentation of Internal Control System (GAO-14-704G) section 3.09 and 3.10 state that management should develop and maintain documentation of its internal control system. The documentation communicates the who, what, when, where, and why of internal control execution to personnel. The use of incomplete or out of date policies and procedures can cause confusion among LSC staff and lead to inadequate oversight and monitoring of LSC funds.

## CONCLUSION AND RECOMMENDATIONS

LSC quickly put procedures in place to distribute grant funds, developed a process for grantees to submit quarterly reports, and evaluated the results and effectiveness of CARES Act Funds. We suggest that LSC review current processes and CARES Act work products to develop written policies and procedures to use for potential unanticipated appropriated funds in the future. Based on our discussion with the Vice President for Grants Management we learned that this effort is underway.

Following are recommendations to strengthen internal controls, improve documentation, clarify reporting instructions, and update policies and procedures.

[Recommendation 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.

[Recommendation 2](#): Align self-reporting instructions in the LSC and CARES Act Reporting Requirements with the electronic reporting system. Any discrepancies or changes should be included in updated instructions and distributed to LSC recipients. If possible, the self-reporting instructions should be written concurrently with the design of the electronic reporting system to ensure the instructions coincide with the information collected from the electronic reporting system.

[Recommendation 3](#): Ensure that OPP and OCE *Policies and Procedures Manual* are updated and complete, including policies and procedures for the oversight and monitoring of Disaster Program funds, which would include LSC CARES Act Funds.

[Recommendation 4](#): Update the out-of-date references to Federal Regulations in the OCE *Policies and Procedures Manual*.

[Recommendation 5](#): Update the *LSC Administrative Manual* to include the organization's current contracting process using electronic NetSuite system approvals.

[Recommendation 6](#): Complete revisions and publish the *OFAS Accounting Procedures Manual*<sup>6</sup>, including bank account verification policies and procedures.

---

<sup>6</sup> Per our interviews during the course of the audit LSC is currently working to complete and publish the draft *OFAS Accounting Procedures Manual*.

## OIG EVALUATION OF LSC MANAGEMENT COMMENTS

LSC responded to the OIG's Draft Report via email on June 21, 2022. LSC agreed with all six recommendations. LSC's responses are included in their entirety in Appendix II.

The OIG considers LSC's comments to all six recommendations as responsive. Recommendations 2, 4, and 5 were fully addressed and are considered closed. Recommendations 1, 3, and 6 will remain open until the OIG receives the following supporting documentation:

- Recommendation 1: Updated *OPP Office Procedures Manual*, including the requirements for maintaining documentation for Special Purpose, Disaster, or other similar grants.
- Recommendation 3: Updated *OPP and OCE Policies and Procedures Manuals*, including policies and procedures for oversight and monitoring of Disaster Program funds.
- Recommendation 6: Updated *OFAS Accounting Procedures Manual*, including bank account verification policies and procedures.

## APPENDIX I: ASSESSMENT OF INTERNAL CONTROL COMPONENTS AND PRINCIPLES

Internal Control Component		Principle	
Name	Overview	Number	Description
<b>Control Environment</b>	The control environment is the foundation for an internal control system. It provides discipline and structure which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control	<b>3</b>	Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives
<b>Risk Assessment</b>	Having established an effective control environment, management assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Management assesses the risks the entity faces from both external and internal sources	<b>6</b>	Management should define objectives clearly to enable the identification of risks and define risk tolerances
		<b>7</b>	Management should identify, analyze, and respond to risks related to achieving the defined objectives
		<b>8</b>	Management should consider the potential for fraud when identifying, analyzing, and responding to risks
		<b>9</b>	Management should identify, analyze, and respond to significant changes that could have an impact on the internal control system
<b>Control Activities</b>	Control activities are the actions management establishes through policies and procedures to	<b>10</b>	Management should design control activities to achieve objectives and respond to risks

	achieve objectives and respond to risks in the internal control system, which includes the entity's information system	11	Management should design the entity's information system and related control activities to achieve objectives and respond to risks
		12	Management should implement control activities through policies
<b>Information and Communication</b>	Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events	13	Management should use quality information to achieve the entity's objectives
		14	Management should internally communicate the necessary quality information to achieve the entity's objectives
		15	Management should externally communicate the necessary quality information to achieve the entity's objectives
<b>Monitoring</b>	Finally, since internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. Corrective actions are a necessary complement to control activities in order to achieve objectives	16	Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results
		17	Management should remediate identified internal control deficiencies on a timely basis.

## APPENDIX II: LSC MANAGEMENT COMMENTS



LEGAL SERVICES CORPORATION

June 22, 2022

Roxanne Caruso  
Acting Inspector General & Assistant Inspector General for Audit  
Office of Inspector General  
Legal Services Corporation  
3333 K Street, NW  
Washington, DC 20007

**President**  
Ronald S. Flagg

**Board of Directors**  
John G. Levi  
Chicago, IL  
*Chairman*

Fr. Pius Pietrzyk, OP  
Washington, D.C.  
*Vice Chair*

Robert J. Grey, Jr.  
Richmond, VA

Matthew Keenan  
Leawood, KS

Abigail Lawlis Kuzma  
Indianapolis, IN

Victor B. Maddox  
Louisville, KY

John G. Malcolm  
Washington, D.C.

Laurie Mikva  
Chicago, IL

Frank X. Neuner, Jr.  
Lafayette, LA

Julie A. Reiskin  
Denver, CO

Gloria Valencia-Weber  
Albuquerque, NM

Re: Response to Draft Report – LSC’s Distribution, Use, and Oversight of CARES Act Funds

Dear Ms. Caruso,

Enclosed for your review is the completed tracking form and links to supporting documentation relative to LSC Management’s responses to the recommendations provided in the report referenced above.

LSC Management appreciates the OIG’s conclusion that “LSC quickly put procedures in place to distribute grant funds, developed a process for grantees to submit quarterly reports, and evaluated the results and effectiveness of CARES Act Funds.” LSC Management agrees with the OIG’s six recommendations “to strengthen internal controls improve documentation, clarify reporting instructions, and updated policies and procedures.”

As noted on the enclosed tracking form, LSC’s efforts to address each recommendation have either been completed or are underway. These efforts will help ensure that LSC is poised to distribute and effectively oversee future disaster funds or other unanticipated funds and improve oversight of existing grant programs.

Actions undertaken by LSC Management to address the OIG’s recommendations include:

- LSC is in the process of issuing a request for proposals to engage a consultant to assist the Offices of Program Performance and Compliance and Enforcement update their Policies and Procedures Manuals.
- The Office of Compliance and Enforcement updated its current [Policies and Procedures Manual](#) to reflect the appropriate references to Part 1630.
- The [LSC Administrative Manual](#) was revised to include NetSuite system approvals.

- The Office of Financial and Administrative Services is reviewing and revising its Accounting Procedures Manual.

Thank you for the opportunity to provide comments before the OIG issues its final report.

If I or any member of the LSC staff can provide additional or clarifying information, please let me know.

Sincerely,

A handwritten signature in blue ink that reads "Ronald S. Hagg". The signature is written in a cursive style with a large, stylized 'H'.

President





### Recommendation Tracking

Grantee Name:

RNO:

The Office of Inspector General makes recommendations for actions or changes that will correct problems, better safeguard the integrity of funds, and improve procedures or otherwise increase efficiency or effectiveness. We believe grantee management understands its operations best and is in a position to utilize more effective methods to respond to our recommendations. We encourage these methods when responding to recommendations.

**Instructions:** Please complete this form with your comments and select whether you agree, partially agree, or disagree with the recommendations outlined in the draft report. Along with this form, submit a letter outlining your responses to our audit report.

Recommendations	Response	Comments
Recommendation 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.	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	In progress: As part of drafting and revising a new policies and procedures manual (see comment to recommendation 3), OPP will develop procedures to ensure staff maintains documentation related to requests from grantees and OPP responses for all special purpose grant programs, including the disaster grants program.
Recommendation 2: Align self-reporting instructions in the LSC and CARES Act Reporting	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	Agree, but no action was taken as the recommended steps are no longer necessary. As reported to the OIG team, there were technological

<p>Requirements with the electronic reporting system. Any discrepancies or changes should be included in updated instructions and distributed to LSC recipients. If possible, the self-reporting instructions should be written concurrently with the design of the electronic reporting system to ensure the instructions coincide with the information collected from the electronic reporting system.</p>		<p>challenges to aligning instructions between the self-reporting instructions and the electronic reporting system. In some cases (as noted in the report), the alignment could not be accomplished 100 percent. LSC worked with all grantees to submit reporting properly. Many grantees took advantage of the office hours held by the disaster team, and many others reached out for assistance through the <a href="mailto:disasterlegalaid@lsc.gov">disasterlegalaid@lsc.gov</a> email address to obtain clarity in the instructions. LSC is currently working through the closeout process for COVID-19 response grants, making this recommendation unnecessary as no further reporting is required.</p>
<p>Recommendation 3: Ensure that OPP and OCE <i>Policies and Procedures Manual</i> are updated and complete, including policies and procedures for the oversight and monitoring of Disaster Program funds, which would include LSC CARES Act Funds.</p>	<p>Agree <input checked="" type="checkbox"/>  Partially Agree <input type="checkbox"/>  Disagree <input type="checkbox"/></p>	<p>In progress: OPP and OCE leadership are actively working with the Office of Legal Affairs to issue an RFP for a consultant to assist with drafting and revising policies and procedures for OPP and OCE. The project will include developing policies and procedures for overseeing and monitoring basic field grants and all special purpose grant programs, including the disaster grant program.</p>
<p>Recommendation 4: Update the out-of-date references to Federal Regulations in the OCE <i>Policies and Procedures Manual</i>.</p>	<p>Agree <input checked="" type="checkbox"/>  Partially Agree <input type="checkbox"/>  Disagree <input type="checkbox"/></p>	<p>Complete. On June 3, 2022, OCE corrected the two outdated references in the <a href="#">OCE Policies and Procedures Manual</a> section 5.11 (I). The section now correctly indicates that CFR. § 1630.11, not CFR. § 1630.7, outlines the processes related to questioned costs proceedings.</p>
<p>Recommendation 5: Update the <i>LSC Administrative Manual</i> to include the organization's current</p>	<p>Agree <input checked="" type="checkbox"/>  Partially Agree <input type="checkbox"/>  Disagree <input type="checkbox"/></p>	<p>Complete: On May 14, 2022, Chapter 1 (Purchasing) of the <a href="#">LSC Administrative Manual</a> was revised to include NetSuite system approvals.</p>

contracting process using electronic NetSuite system approvals.		
Recommendation 6: Complete revisions and publish the OFAS <i>Accounting Procedures Manual</i> , including bank account verification policies and procedures.	Agree <input checked="" type="checkbox"/> Partially Agree <input type="checkbox"/> Disagree <input type="checkbox"/>	In progress: OFAS drafted the Accounting Procedures Manual in 2021 before all financial systems were in place. New processes and procedures supersede what is currently in the manual. OFAS is updating the Accounting Procedures manual to reflect additional staff, financial systems, new processes, and new procedures. LSC management anticipates completing the process this summer.

Ronald S. Flagg, President

**Name and Title**

**Signature**

\_\_\_\_\_  
  
 \_\_\_\_\_