

OIG PLAYBOOK

Safeguarding LSC Funds Through Effective Board of Directors Oversight

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OFFICE OF INSPECTOR GENERAL
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LEGAL SERVICES CORPORATION

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Contents

1. Introduction

2. Practices to Promote Effective Board Oversight

- Set the Appropriate “Tone at the Top”
- Promote General Effective Fiscal Oversight by the Board
- Promote Timely and Effective Consideration of Annual Audit Findings, Recommendations, and Other Audit or Investigative Insights
- Strengthen Board Oversight Related to Outside Businesses and Consulting Agreements
- Strengthen Board Oversight Related to Conflicts of Interest and Nepotism
- Strengthen Board Oversight Related to Compensation and Severance Packages
- Strengthen Board Oversight Related to ED Expenditures and Reimbursements
- Strengthen Board Oversight Related to LSC Policy and Regulatory Requirements
- Strengthen Board Oversight Related to Information Technology (IT) and Cybersecurity

3. LSC Grantees’ and Boards’ Responsibilities for Dealing with Potential Fraud, Waste, and Abuse

4. Concluding Observations



Introduction

The LSC Office of Inspector General (OIG) is issuing this Playbook to (1) underscore the importance of Boards of Directors (Boards) in actively serving as oversight bodies—particularly oversight of Executive Directors (ED) and Chief Executive Officers (CEO)—and (2) highlight practices you can employ to help prevent fraud, waste, abuse, noncompliance, and mismanagement, as you execute your oversight responsibilities and serve as good stewards of public and donor funds.

Based on years of casework and audits, the OIG believes many cases of fraud, waste, abuse, and other problems related to mismanagement and conduct could have been prevented through proper Board oversight or more transparent decision making.

Actively engaged Boards are essential to effective governance of nonprofit civil legal aid organizations.

Actively engaged Boards are essential to effective governance of nonprofit civil legal aid organizations. According to the National Council of Nonprofits,¹ a Board has three primary legal duties:

1. **Duty of Care:** Take care of the nonprofit by ensuring prudent use of all assets, including facilities, people, and goodwill.
2. **Duty of Loyalty:** Ensure that the nonprofit's activities and transactions are, first and foremost, advancing its mission; recognize and disclose conflicts of interest; make decisions that are in the best interest of the nonprofit corporation, *not in the best interest of the individual Board member* (or any other individual or for-profit entity).
3. **Duty of Obedience:** Ensure that the nonprofit obeys applicable laws and regulations; follows its own bylaws; and that the nonprofit adheres to its stated corporate purposes/mission.

Other authoritative standards are relevant to nonprofits and recipients of federal funds, such as your organization. These standards clearly specify the critical role of Board oversight in ensuring accountability, transparency, and integrity in the use of public or other donor funds. Namely, the U.S. Government Accountability Office's (GAO) Standards for Internal Control² stipulate that oversight bodies like yours

¹ See [Board Roles and Responsibilities | National Council of Nonprofits](#).

² See [GAO-14-704G, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT](#).

“...are responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing management’s design, implementation, and operation of an internal control system.” Also, the Committee of Sponsoring Organizations’ (COSO) Internal Control Framework states that a Board of Directors “... should challenge management and ask the tough questions.”³

This LSC OIG Playbook highlights a series of practices that Board members should consider as you execute your essential oversight responsibilities. The OIG based these practices on issues we have observed in our prior work, as well as specific authoritative standards or principles that are applicable to the LSC environment. This Playbook also aligns with our [strategic plan](#) goal to help improve LSC’s and grant recipients’ programs and operations, with the aim of preventing fraud, waste, and abuse; promoting efficiency and effectiveness of operations; and advancing effective and leading-edge governance activities.

³ See p. 9. of the Committee of Sponsoring Organizations of the Treadway Commission’s [Executive Summary \(coso.org\)](#).



Practices to Promote Effective Board Oversight

To facilitate the efficient, effective, and ethical use of LSC funds, we believe Board members should strongly consider embracing the following suggested practices related to “Tone at the Top,” general fiscal oversight, required annual audits, business and consulting agreements, conflicts of interest and nepotism, compensation and severance packages, ED expenditures, and compliance with LSC policy and regulatory requirements.

Protect Your Program and Your Clients

Report violations of law and LSC regulations

oig.lsc.gov/oig-hotline

We recognize that as Board members you are not necessarily responsible for actually creating or implementing all key internal controls referenced in this Playbook. That is largely the responsibility of the head of your organization and its senior leaders. However, based on applicable standards, we do believe you should ask your ED/CEO/President and other senior leaders: “to what extent do you have policies, procedures, and other systems in place to ensure our organization is following the practices described in this Playbook?” and push for organizational changes as

appropriate.

Practices to Set the Appropriate “Tone at the Top”⁴

- Follow the guiding principles for nonprofit Boards by exercising a duty of care, loyalty, and obedience in regard to your organization. Ensure the ED and the leadership team have policies and procedures in place that facilitate proper use of all organization assets. Make decisions that are in the best interest of the organization, and ensure the organization has policies and controls in place to assure compliance with applicable laws, regulations, and other requirements.
- As required by the LSC Financial Guide,⁵ ensure the organization’s operations are conducted and managed in a manner that emphasizes: (1) ethical and honest behavior; (2) compliance with applicable laws, regulations, and policies; (3) effective management of the organization’s resources and risks; and (4) accountability of persons within the organization.
- As required by the LSC Financial Guide, assure the organization documents all Board and committee meetings (meeting minutes) including decisions made and approvals.
- Create an active Board committee structure because a Board with active committees will engage in more effective oversight than one without committees. This is especially important if your Board is composed of multiple members.

⁴ GAO defines “tone at the top” as when an oversight body and management demonstrate the importance of integrity and ethical values through their directives, attitudes, and behavior. An in-depth discussion of “tone at the top” can be found on page 22 [here](#).

⁵ The LSC Financial Guide can be found [here](#).

- Clearly communicate to all employees verbally and in writing, that fraud will not be tolerated at any level. Annually, remind employees of LSC's regulation Part 1640, which lists federal criminal statutes applicable to employees' use of LSC funds.⁶
- Create an anti-fraud policy to communicate the organization's anti-fraud position, the process for reporting fraud, and the employee outcome for confirmed acts of fraud.
- Ensure a formal avenue exists for employees to report potential fraud, waste, and abuse to Board members, such as an anonymous tip line, and the ED has taken action to promote awareness of it. Organizational policy should also inform staff of the OIG Hotline and require management to timely report allegations of a loss of funds and/or fraud, waste, and abuse to the OIG Hotline.⁷ Timely reporting to the OIG is required by LSC's Grant Terms and Conditions.⁸
- As required by LSC's Grant Terms and Conditions, ensure your organization has a written conflict of interest policy that addresses nepotism and covers both staff and Board members, or separate conflict of interest and nepotism policies⁹ that cover the same, and a written whistleblower policy that requires staff to report unlawful or unethical activity (i.e., violation of any law, policy, or regulation; abuse of authority; gross waste of funds; fraud; embezzlement; theft; improper destruction of records; or providing false information) and prohibits retaliation. Staff must have access to the policies and be trained in them.
- Include a gift acceptance policy in your employee handbook that applies to all management and staff, including the ED, as well as a separate gift acceptance policy for the Board.
- Consider requesting an OIG Fraud Prevention Review and/or a Fraud Awareness Briefing for your organization and/or for your Board. The OIG offers these services that will help you identify areas of fraud vulnerability and provide suggestions for strengthening your policies and procedures to protect against fraud and misuse of LSC funds. We are committed to promoting awareness of common fraud schemes and red flag indicators of fraud, waste, or abuse. We also encourage you to review the OIG's memorandum on preventing [wasteful spending](#).

Practices to Promote Effective General Fiscal Oversight by the Board¹⁰

- Strongly consider increasing the number of Board members with a fiscal background, as 45 C.F.R. Part 1607 now requires only 33-percent of grantee Board members to be attorneys. This could help

⁶ 45 C.F.R. Part 1640 lists applicable Federal laws relating to the proper use of Federal funds and resulting violations, including 18 U.S.C. 201 (Bribery of Public Officials and Witnesses); 18 U.S.C. 287 (False, Fictitious or Fraudulent Claims); 18 U.S.C. 666 (Theft or bribery concerning programs receiving Federal funds); and 18 U.S.C. 641 (Public Money, Property or Records).

⁷ The OIG's Hotline page can be accessed [here](#).

⁸ The 2025 LSC Grant Terms and Conditions can be found [here](#).

⁹ Please see OIG fraud advisories on nepotism and conflicts of interests best practices: [Nepotism](#) and [Conflicts of Interest](#).

¹⁰ As we understand it, LSC periodically offers trainings to grantees on Board Governance focusing on fiscal oversight. Additional free Board Governance information is available on [National Council of Nonprofits](#) and [AICPA & CIMA](#).

“recipients to identify skills and experience needed to enhance their governing bodies’ oversight and functional capabilities.”¹¹

- Ensure you meet the LSC Financial Guide’s requirement for each recipient’s Board to establish a financial oversight committee(s) and document the duties of the committee(s) in writing, such as an approved charter that is posted online. Recommend that the financial oversight committee(s) have at least one director who is a financial expert, and preferably more than one. If that is not feasible, committee members should have access to non-director committee members with this type of expertise.¹²
- As required by the LSC Financial Guide,¹³ ensure the financial oversight committee has the responsibility to review the monthly management reports, such as financial statements, with the Chief Financial Officer, Controller, and/or external accountants.
- Consider reasonable term limits for Board membership and executive committee positions. Reasonable term limits should also balance the need for institutional knowledge and the potential negative effects of high turnover.
- Ensure the organization has a fidelity bond¹⁴ or similar insurance for all employees, officers, directors, agents, volunteers, and third-party contractors who handle LSC funds.
- Require a dollar threshold that triggers Board approval of contracts.
- Have assurance that the annual Internal Revenue Service (IRS) Form 990¹⁵ is accurate and filed in a timely manner.

Practices to Promote Timely and Effective Consideration of Annual Audit Findings, Recommendations, and Other Audit or Investigative Insights

- Engage in overseeing the annual LSC-required audit¹⁶ and ensure the audit starts and progresses in a timely manner. The oversight of the audit process also entails the hiring and evaluation of an Independent Public Accountant (IPA). The Board should also offer observations to management about the IPA’s performance and whether to reengage the IPA for subsequent audits. If you have an Audit

¹¹ LSC’s Program Letter 24-3 (statutory changes to required proportion of attorneys on grantee governing bodies) can be accessed [here](#).

¹² The LSC Charter of the Audit Committee requires that their Director member either have or have access to a non-Director member with at least a basic understanding of finance and accounting, the ability to read and comprehend fundamental financial statements, and knowledge of the organization’s financial operations and reporting requirements.

¹³ The LSC Financial Guide can be found [here](#).

¹⁴ Pursuant to 45 C.F.R. Part 1629, LSC recipients are required to carry fidelity bond or similar insurance coverage to protect LSC funds against fraudulent or dishonest acts committed by one or more employees, officers, directors, agents, volunteers, and third-party contractors who handle LSC funds.

¹⁵ The Internal Revenue Code (Code) outlines various requirements for an annual information return to be filed by organizations that are exempt from tax. Information on Form 990 can be found [here](#).

¹⁶ Since 1996, LSC’s annual federal appropriations have required that each person or entity receiving financial assistance from LSC be subject to an annual audit by an IPA. Each grantee contracts directly with an IPA to conduct the required audit in accordance with generally accepted government auditing standards and the *LSC OIG Audit Guide*. The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA audit process. OIG’s oversight activities include desk reviews and a quality control program with independent reviews.

Committee or Finance Committee, these committee members should be the directors most actively engaged in audit oversight.

- Annually review and discuss with organization management, the organization’s annual audited financial statements¹⁷ and final audit report, including any findings and recommendations. Be aware of and understand risk areas, related internal controls, and any material weaknesses and/or significant deficiencies identified in the annual financial statement audit.
- Review and discuss management’s responses to significant findings. Ensure active discussions occur about management’s efforts to implement any corrective action plans, including open recommendations from prior years.
- Consider discussing with management and their IPA changes in accounting principles and auditing standards and their potential impact on the organization.
- Review other audits pertaining to your organization, including OIG-conducted audits and reviews, and periodically inquire with management about the status of any open recommendations.
- Review and formally approve the organization’s annual budget. The Board should ensure that the budget reflects the organization’s overall strategic direction and advances the long-term fiscal health of the organization.
- Ask management how they are responding to OIG advisories and other OIG communications highlighting risks, challenges, and opportunities for improvement.

Practices to Strengthen Board Oversight Related to Outside Businesses and Consulting Agreements

- Be aware of how business relationships may appear to external parties, such as federal and private funders and encourage a “culture of candor.”¹⁸
- Scrutinize contracts and business relationships between EDs and the organization. These include consulting agreements with retiring EDs that may not provide adequate assurance that the organization is receiving best value under the terms of the contract.
- Ensure that your organization has controls in place that provide reasonable assurance that management is following procurement policies. For high dollar procurements, obtain at least three bids from companies to ensure best value and retain documentation that supports a competitive procurement process.
- If you are made aware of a potential conflict, consider seeking an independent ethics opinion, or at the very least discuss the issue with LSC representatives. As appropriate, require individuals to recuse themselves from a procurement process if a conflict appears to exist.

¹⁷ The LSC Financial Guide 2.7.1 *Annual Audit Requirements* states that “All LSC recipients are required to obtain an annual financial statement audit in accordance with the requirements of the LSC Act, LSC’s annual appropriation, the OIG Audit Guide, and applicable GAAP standards.”

¹⁸ The Council of Nonprofits advises that a policy governing conflicts of interests is perhaps the most important policy a nonprofit board can adopt. Suggestions on conflicts of interest policies and the levels of disclosures can be found [here](#).

- Ensure contracts or agreements with former EDs comply with LSC and organization contracting requirements and receive proper Board oversight throughout the contract's term; and have mechanisms in place to ensure the contractor is conducting legitimate work and tracking time.

Practices to Strengthen Board Oversight Related to Conflicts of Interest and Nepotism

- Ensure your organization has a Board-approved conflicts of interest policy (for the Board and organization employees) that addresses nepotism. The policy should include procedures that require disclosure, recusal, and unbiased decision making.¹⁹ Board and organization employees should annually sign a disclosure form that details actual and perceived conflicts of interest.
- Ensure your organization has a policy that requires proactive disclosure and Board approval of ED Outside Practice of Law (OPL), or other conflicts of interest that may arise.

Practices to Strengthen Board Oversight Related to Compensation and Severance Packages

- Conduct periodic studies of your ED's and senior leadership's compensation to ensure salaries, and other benefits, are commensurate with similar legal aid professionals in the area. Consider the size, scope, and complexity of the role, as well as available funding as factors.
- Prior to approving the ED's compensation and benefits package, ensure the Board is able to describe the process they used to approve the ED's compensation, as required by the IRS Form 990, Part VI, Section B, line 15.²⁰ The IRS requires Boards to answer yes or no to the following question: "did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?"
- Create an Executive compensation policy, ensure its implementation, and establish a process for periodic Board review.
- Prevent irregular or excessive compensation packages, including severances and bonuses that are not aligned with IRS and LSC recommendations²¹ and requirements.
- Conduct regular, documented Board performance evaluations of the ED. Regular Board evaluations of the ED indicate the Board is actively engaging in oversight and gaining assurance that the organization is achieving intended results.

¹⁹ For more information on drafting nepotism or conflicts of interest policies, see [LSC's Program Letter 20-1](#), "Nepotism: Avoiding Favoritism in the Workplace."

²⁰ See [IRS Form 990, Part VI, Section B, line 15](#).

²¹ See [LSC Program Letter 24-2 \(Employee Incentive Payment Guidance\)](#).

Practices to Strengthen Board Oversight Related to ED Expenditures and Reimbursements

- Have a documented process in place to review and approve your ED's timesheets, expenses, and compensation on a regular basis, but at least every quarter (as required by the LSC Financial Guide).²²
- Ensure your organization has a policy and effective controls in place for employee reimbursements that require proper approvals and supporting documentation (receipts, invoices, travel reimbursement forms, credit card statements and/or missing receipt affidavits) for all employees, including the ED.
- Ensure your organization's LSC-funded activities and transactions are advancing your organization's mission.

Practices to Strengthen Board Oversight Related to LSC Policy and Regulatory Requirements

- Ensure your organization has a policy that requires Board approval of ED OPL²³ and annual attestation by the ED.
- If a potential conflict of interest arises for the ED, such as contracting with family or a personal friend, ensure the ED notifies the Board and seeks an ethics opinion.
- Provide an annual reminder to the Board and organization employees concerning their obligations and penalties regarding applicable federal laws, as described in 45 C.F.R. Part 1640.²⁴
- As indicated by LSC Performance Criteria Area Four,²⁵ provide appropriate orientation and continuing training, including training on the role of the Board, on potential conflicts of interest, and on fiscal, fiduciary, and other responsibilities.
- As indicated by LSC Performance Criteria Area 4, provide training on the LSC Act, LSC regulations, all LSC performance criteria, and other best practices.
- Consider any deficiencies in compliance noted by audits.

Practices to Strengthen Board Oversight Related to Information Technology (IT) and Cybersecurity

- Ensure your organization has considered the LSC Technology Baselines²⁶ in setting up the organization's IT program, including budget, policies, practices, and IT security protocols.

²² The LSC Financial Guide 2.3 *Record Retention* stipulates that all financial records, supporting documentation, statistical records, including timekeeping records should be retained for a minimum three years after the grant term.

²³ Please see OIG fraud alerts related to outside practice of law and outside employment best practices: [Unauthorized Practice of Law](#) and [Outside Employment](#).

²⁴ 45 C.F.R 1640 ensures that recipients use their LSC funds in accordance with Federal law related to the proper use of Federal funds. Part 1640 also provides notice to recipients of the consequences of a violation of such Federal laws by a recipient, its employees, or board members.

²⁵ LSC Performance Criteria provide guidance for organizational self-evaluation and outside review. The performance criteria can be found [here](#).

²⁶ [LSC's Technology Baselines Guide](#).

- Confirm the organization has policies and procedures in place for securely storing and protecting data and case information, and that the organization is prepared for improvements in technology to support client services and the administration of grantee operations.
- Seek confirmation that your organization has complied with LSC’s annual Cyber Security Awareness Training [requirement](#).²⁷
- Ensure that your organization has a process in place to report cyber incidents promptly to the OIG Hotline, and that staff are aware of the requirement.
- Ensure management is aware of [OIG Cyber Security Resources](#), which are aimed at assisting LSC grantees in preventing, detecting, and reporting cyber threats.
- Consider investing in an IT security review from an experienced IT security consultant and consider purchasing insurance to cover cyber security incident losses.

²⁷ Since 2022, Basic Field Grant Terms and Conditions require that all grantees engage in annual cybersecurity training. Grantees may use the program LSC offers or elect to use a program of their choice, subject to LSC’s approval.



LSC Grantees' and Boards' Responsibilities for Dealing with Potential Fraud, Waste, and Abuse

The LSC OIG²⁸ exists to carry out objective audits, and investigations, and other reviews that:

- Help prevent, deter, and detect fraud, waste, and abuse.
- Promote economy, efficiency, and effectiveness in LSC programs and operations, including LSC's and grantees' operations and performance.
- Keep LSC management, the LSC Board of Directors, and Congress fully and currently informed of significant issues, risks, and deficiencies.

Grantee Reporting Requirements

As a reminder, LSC Grant Terms and Conditions require a grantee to notify the LSC OIG Hotline (800-678-8868, or hotline@oig.lsc.gov) **before** initiating any internal investigation into a matter of suspected fraud, waste, or abuse. As a Board member, you have a responsibility for ensuring management is aware of this requirement and acts accordingly.

Specifically, an LSC grantee must report to the OIG within two business days of:

- discovering information indicating that you have been the victim of a loss as a result of any willful misrepresentation or theft, fraud, misappropriation, or embezzlement, involving property, client funds, LSC funds, and/or non-LSC funds used for the provision of legal assistance;
- reporting a crime to local, state, or federal law enforcement officials;
- discovering that you have been the likely victim of a data breach or any other cyber incident (please note – the OIG can assist with alerting the FBI's cyber-incident resources);
- discovering that you have been the victim of theft or employee misconduct involving cash, credit cards, check stock, program revenue, expense reimbursements, time submissions, passwords, or electronic access codes; or
- discovering that any of your key officials (including officers and directors) or employees are charged with fraud, misappropriation, embezzlement, theft, or any similar offense, are suspended or disciplined by a professional licensing organization, or have been found to have acted in violation of your conflict-of-interest policy.

²⁸ LSC is considered a designated federal entity under the Inspector General Act, as amended (5 U.S.C. § 415). The IG Act provides broad authority for the LSC OIG to conduct audits, investigations and other reviews, and to conduct and coordinate other activities to promote economy and efficiency and to prevent and detect fraud and abuse in LSC's programs and operations (5 U.S.C. § 404(a)).



Concluding Observations

While serving on the Board of a legal aid organization is an honor, with it comes important oversight responsibilities. As Board members, you are responsible for your organization's overall strategic direction and accountability. Specifically, you have overall responsibility for obtaining reasonable assurance that management has in place effective policies, procedures, systems, and human capital practices. By being actively engaged in management's activities and asking tough questions, you could help prevent problems which could divert scarce resources from your organization's mission and increase the risk of creating reputational harm with your funders and the public you serve.

We acknowledge that the vast majority of civil legal aid leaders and professionals are ethical and committed people who want to ensure that scarce resources go to those in need. However, by taking a "trust but verify" approach to governance, you will have greater assurance that your organization has strong internal controls in place and is maximizing every dollar invested in civil legal aid. The LSC OIG remains committed to helping you promote the efficient use of limited resources on behalf of your clients and advance principles of good governance in a challenging funding and operating environment.