

# **Legal Services Corporation**

## **Fiscal Oversight Task Force Report to the Board of Directors**

July 28, 2011

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## **Table of Contents**

### ***Letter from the Co-Chairs***

### **Executive Summary**

### **Introduction**

- Background
- Key Concepts
- Standards Applied by the Fiscal Oversight Task Force

### **Assessment of LSC Fiscal Oversight**

- Current State
  - Organizational Identity and Mission
  - Communication and Coordination among the Board, Management, and OIG
  - Grantee Fiscal Oversight Process
  - Knowledge, Skills, and Experience
- Progress Made

### **Recommendations**

- I. Organizational Identity and Mission
- II. Communication and Coordination among the Board, Management, and OIG
  - A. Roles and Responsibilities
  - B. Board's Responsibility for Fiscal Oversight
  - C. Management and OIG Relationship
- III. Grantee Fiscal Oversight Process
  - A. Risk Assessment
  - B. Scope of Management's Grantee Reviews
  - C. Approach to Management's Grantee Reviews
  - D. Conflicts of Interest
- IV. Knowledge, Skills, and Experience
  - A. Board of Directors
  - B. LSC Employees
  - C. Grantees
  - D. Independent Public Accountants

### **Conclusion**

### ***Appendices***

- Appendix A: Fiscal Oversight Task Force Members
- Appendix B: Interviews Conducted
- Appendix C: Documents Reviewed
- Appendix D: Glossary of Terms
- Appendix E: Oversight Roles throughout the Grantee Process
- Appendix F: Comparison of LSC Activities to Promising Practices for Grant Accountability

## Letter from the Co-Chairs

For more than 35 years, the Legal Services Corporation has been the leading funder of civil legal assistance for low-income Americans. To meet its stewardship responsibilities and to ensure LSC's sound financial management, in 2010 LSC's Board of Directors formed the Fiscal Oversight Task Force and asked for its insight. The Task Force's membership includes individuals with a wide range of skills and experience from the legal, accounting, and grant-making communities.

In this report, we present for the Board's consideration a series of recommendations targeted at strengthening the level of fiscal oversight that LSC exercises. The Task Force's report is not intended to be retrospective, but instead is meant to assist LSC as it charts a path forward. We hope that the recommendations in this report will allow LSC to enhance its processes for grantee fiscal oversight and to create a more efficient and effective system for evaluating and monitoring internal controls related to the proper use of funding by LSC's grantees. The charter of the Task Force focused on fiscal oversight, and that has therefore been the focus of our work. The absence of an emphasis on program quality assessment in this report is not intended to diminish its importance. Quite to the contrary, we anticipate that LSC will maintain its strong emphasis on and commitment to ensuring program quality, but will also strengthen financial oversight as it discharges its fiduciary duty to spend taxpayer dollars responsibly.

We believe that the risk-based, integrated approach to financial oversight that the Task Force recommends will enable LSC to provide more meaningful and effective oversight. The recommendations should help to increase coordination among the various groups with oversight functions, reduce burdens on grantees, and ultimately bolster grantees' own capabilities to achieve their mission.

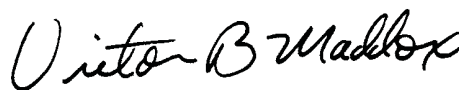
The Task Force fully respects the independence of LSC's Office of Inspector General (OIG) and its need to make its own decisions related to its work and to pursue its activities without inappropriate interference. A comprehensive analysis of LSC's fiscal oversight functions would be incomplete, however, if it did not also address the role of the OIG. While the majority of this report focuses on the responsibilities of LSC's leadership and management, we encourage the Inspector General and his staff to evaluate and consider the Task Force's recommendations to the extent that they are also applicable to OIG operations.

The Task Force recognizes that even a "best practices" approach to fiscal oversight cannot eliminate all financial risks. Nevertheless, continuing to strengthen its processes will enable LSC to provide an even more consistent, efficient, and effective level of both service and fiscal oversight to its grantees, thereby improving the level of civil legal services available to low-income Americans.

We want to thank all who participated in interviews, contributed information, and assisted the Task Force in its work. We greatly appreciate the support of LSC's leadership, its management and staff, the Office of Inspector General, and Baker Tilly. We especially thank our colleagues on the Task Force, who have contributed their talents and insight on a volunteer basis.

A handwritten signature in black ink, reading "Robert J. Grey, Jr." in a cursive script.

Robert J. Grey, Jr.  
Co-Chair, Fiscal Oversight Task Force

A handwritten signature in black ink, reading "Victor B. Maddox" in a cursive script.

Victor B. Maddox  
Co-Chair, Fiscal Oversight Task Force

## Executive Summary

Congress established the Legal Services Corporation (LSC or the Corporation) in 1974 as a nonprofit organization for the purpose of providing funding for civil legal assistance to low-income Americans. LSC receives an annual appropriation from Congress to award grants to legal aid organizations across the country in support of this mission.

In 2010, the LSC Board of Directors (the Board) approved the creation of an independent task force to review and make recommendations to the Board regarding how LSC carries out its fiscal oversight responsibilities. The Fiscal Oversight Task Force (the Task Force) consists of 17 members, including business leaders, attorneys, certified public accountants, grant makers, former Inspectors General, and four LSC Board members, who have experience in nonprofit organizations, internal controls, and financial operations. The Task Force engaged the accounting and advisory firm of Baker Tilly to assist, review documentation, and conduct interviews with more than 25 individuals from LSC management and staff, the LSC Office of Inspector General (OIG), and the Board of Directors.

Below we present, at a summary level, the Task Force's assessment of the current state of LSC's fiscal oversight and a description of the most significant recommendations. LSC's processes related to assessing program quality were outside of the scope of the Task Force's purview and are therefore discussed in this report only as needed to provide context for comments regarding LSC's fiscal oversight functions. While the Corporation has always placed, and continues to place, an emphasis on assessing the quality of the services provided by its grantees, in recent years LSC leadership has also sought to enhance its fiscal oversight and compliance role as a grant-making agency responsible for distributing over \$400 million of taxpayer money.

### Organizational Identity and Mission

In line with LSC's mission, LSC has devoted considerable resources to overseeing the quality of legal services provided to low-income Americans by its grantees. LSC recognizes that there are opportunities to increase its attention to fiscal oversight and internal controls in its role as a grant maker.

The Task Force recommends that LSC:

- Clarify and affirm the Corporation's responsibilities related to grantee fiscal oversight.
- Establish a consistent "tone at the top," define and promulgate a strong organizational culture, and continue to keep the Board active and engaged in its oversight of LSC's grant-making operations.

### Communication and Coordination among the Board, Management, and OIG

The Corporation operates in a complex environment that currently includes 136 independent grantee organizations with 919 office locations, each with unique operating risks and concerns. LSC's oversight process evolved over many years to include numerous groups (i.e., Office of Program Performance (OPP), Office of Compliance and Enforcement (OCE), Office of Information Management (OIM), Office of Inspector General, and the independent public accountants (IPAs) that audit grantees), creating challenges in developing a comprehensive, effective, and efficient system for fiscal oversight. Additionally, misunderstandings arose regarding a fiscal oversight-related provision of the Conference Report accompanying the 1996 Congressional appropriations bill, resulting in past LSC management offices' viewing the activities of the OIG and IPAs as replacing certain aspects of management's responsibilities, and thus creating a gap in LSC's approach to grantee fiscal oversight. LSC leadership

strongly respects and understands the need to maintain the OIG's independence and autonomy, but the Board has not consistently exercised its responsibility to provide proper supervision to the OIG. The relationship between the Board, management, and the OIG has improved in recent years.

To address these matters, the Task Force issues several recommendations, including that LSC:

- Consolidate management's oversight responsibilities, currently dispersed among OPP, OCE, and OIM, into one office (called the Office of Grantee Assessment (OGA) for purposes of this report), instituting a "cradle-to-grave" approach to grants management and fiscal oversight.<sup>1</sup>
- Appoint a Vice President-level individual to lead OGA whose background includes grants management and internal controls.
- Document and memorialize the roles, expectations, and operating practices of LSC's Board, management, and the OIG to ensure that all necessary fiscal oversight activities are undertaken and to enable progress to be maintained during periods of leadership transition.
- Formalize, and maintain or increase, the flow of fiscal oversight-related information and communication to the Board from management and the OIG.

### Grantee Fiscal Oversight Process

The Corporation's on-site grantee reviews have historically focused on the quality of grantees' delivery of legal services and on assessing whether the legal cases handled by the grantees comply with statutory and programmatic restrictions on the use of funding. A broader view of the grantees' overall management structure and ability to steward LSC-provided funds has not been a focus of these reviews.

Among other things, the Task Force recommends that LSC:

- Conduct a unified, comprehensive LSC risk assessment process, incorporating input from the OIG and IPAs, that includes identifying financial risks and incorporating current methods and best practices for addressing such risks through fiscal oversight.
- Structure management's grantee reviews to comprehensively address financial risks, both prior to grant award and post-award.
- Create systems to support timely and efficient sharing within LSC of appropriate information about grantees and monitoring of the status of grantee corrective actions.
- Identify, monitor, and disclose conflicts of interest related to staff and grantees.

### Knowledge, Skills, and Experience

LSC experiences a high level of leadership and management turnover, with the Board of Directors effectively transitioning with each U.S. Presidential administration and a total of 25 LSC Presidents serving in the Corporation's 37 years of existence. Consistent with LSC's focus on funding legal services, the experience and expertise of OCE and OPP staff come primarily from the legal profession and from having previously worked for a grantee program. Our review suggests that the majority of staff conducting on-site reviews has not received directed training in internal controls or accounting.

The Task Force recommends that LSC take several steps in this area, including:

- Encourage the sequencing of Board appointments so as to stagger the terms of Board members as permitted by the LSC Act.
- Continue the practice of utilizing non-Board members with experience in accounting, finance, and internal controls to serve on key financial-related committees and urge the Boards of grantee organizations to adopt a similar practice.

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<sup>1</sup> Although not the focus of the Task Force's review, this recommendation envisions that OPP's current responsibility for assessing program quality would also become a responsibility of OGA.



- Ensure that employees filling fiscal oversight roles within the new OGA structure have the necessary knowledge and skills.
- Provide directed training to staff, grantees, grantee Board members, and IPAs.

The Task Force understands that no system of internal controls is flawless, and the risk of fraud and abuse cannot be fully eliminated. Nevertheless, developing and promoting a system of strong internal controls, strengthening cooperation among all groups with oversight responsibilities, and establishing training programs and resources will allow LSC to improve its fiscal oversight operations and provide for the most effective and efficient use of available funding. This will enhance LSC's ability to advance its mission of funding high-quality civil legal services for millions of low-income Americans.

## Introduction

Upon taking office in April 2010, members of the current LSC Board of Directors (the Board) recognized that, in furtherance of the Corporation's and its grantees' mission and goals, the Corporation had an opportunity to strengthen its processes for providing fiscal oversight of the funds provided to its grantees. These observations were reinforced by a series of reports issued by the Government Accountability Office (GAO). Led by the newly elected Chairman, John G. Levi, the Board aimed to ensure that LSC was establishing a "gold standard" for conducting fiscal oversight.

On July 21, 2010, the Board approved the creation of an independent task force "to undertake a review of and make recommendations to the Board regarding LSC's fiscal oversight responsibilities and how the Corporation is conducting fiscal oversight of its grantees."<sup>2</sup> The Fiscal Oversight Task Force (the Task Force) consisted of 17 members, co-chaired by two LSC Board members, Robert J. Grey, Jr., and Victor B. Maddox. The membership included business leaders, attorneys, certified public accountants, grant makers, former Inspectors General, and four LSC Board members, who have experience in nonprofit organizations, internal controls, and financial operations (see **Appendix A** for a full listing of Task Force members).

The Task Force engaged the accounting and advisory firm of Baker Tilly to assist in completing its review. The Baker Tilly team provided specialized expertise in the areas of risk management and internal controls, performed fact-finding interviews, and reviewed documentation to assist the Task Force in understanding the current state of grantee fiscal oversight within the Corporation (see **Appendix B** for a listing of interviews conducted and **Appendix C** for a listing of documentation reviewed). Based on these activities, the Task Force members worked with Baker Tilly to develop this report.

In addition to providing fiscal oversight of LSC-provided funds, LSC also assesses the quality of legal services provided to eligible individuals by its grantees. However, LSC's processes related to program quality were outside of the scope of the Task Force's purview and, as such, are discussed in this report only to the extent needed to provide context for comments regarding LSC's fiscal oversight functions.

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<sup>2</sup> Board Resolution 2010-009



## **Background**

LSC serves as the single largest funder of civil legal aid for people in poverty in the United States. The Corporation was established by Congress in 1974 through the passage of the Legal Services Corporation Act, PL. 93-355, 42 U.S.C. § 2996 *et. seq.* (LSC Act or the Act). LSC was formed as a 501(c)(3) nonprofit corporation located in Washington, D.C., “for the purpose of providing financial support for legal assistance in noncriminal proceedings or matters to persons financially unable to afford legal assistance.”<sup>3</sup> In fiscal year (FY) 2011, LSC received a Federal appropriation of \$404 million, of which approximately 94 percent was used to provide grants to field programs providing civil legal assistance to qualifying individuals. To this end, the Corporation organizes and leads a grant-making process that provides funding to locally operated nonprofit organizations responsible for delivering legal assistance to low-income Americans across the United States. LSC currently has 136 grantees.

LSC is governed by an eleven-member Board of Directors, each of whom is appointed by the President of the United States and confirmed by the United States Senate (Senate) to serve a three-year term. The Board is statutorily established as the head of the entity, and thus has the responsibility for guiding and monitoring the operations of the Corporation.

As a grant-making agency, LSC must assess its grantees’ abilities to provide appropriate stewardship of the funds awarded and take appropriate corrective action when necessary. The Corporation is given the “...authority to insure [sic] the compliance of recipients and their employees with the provisions [within the LSC Act] and the rules, regulations, and guidelines promulgated pursuant to [the LSC Act].”<sup>4</sup> Toward this goal, the Corporation, and its grantees, must abide by the restrictions outlined in the LSC Act with regard to services to be provided and limitations on the use of LSC funding. Additionally, the LSC Act charges the Corporation to “monitor and evaluate and provide for independent evaluations of programs supported in whole or in part” by LSC funding.<sup>5</sup> Further, the Act requires that “[t]he Corporation shall conduct, or require each grantee, contractor, or person or entity receiving financial assistance...to provide for, an annual financial audit.”<sup>6</sup>

A number of groups currently play a role in providing fiscal oversight to LSC grantees. While LSC and its Board or designees<sup>7</sup> maintain ultimate responsibility for fiscal oversight of grantees’ use of funds and compliance with the rules and regulations of the LSC Act, bylaws of the Corporation, and grant terms and conditions, grantees are also subject to review by LSC’s Office of Inspector General (OIG) and receive annual audits by Independent Public Accountants (IPA). Additionally, LSC requires grantees to establish a system of internal controls and monitoring within their operations. Though each of these groups fulfills a particular purpose or mission, and may coordinate in certain activities or provide information to the Board or LSC management, LSC maintains the statutory responsibility for monitoring grantee activities.

Between August 2007 and June 2010, the GAO performed three audits of LSC’s operations, LSC’s fiscal controls related to its oversight of grantee programs, and its internal operations. In its reports, GAO made over 30 recommendations related to LSC’s grantee oversight and control practices. The recommendations ranged from changing LSC’s Board and management structure to enhancing its grantee oversight activities and related documentation.

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<sup>3</sup> LSC Act, §2996b.(a)

<sup>4</sup> LSC Act, §2996e.(b)(1)(A)

<sup>5</sup> LSC Act, §2996f.(d)

<sup>6</sup> LSC Act, §2996h.(c)(1)

<sup>7</sup> Each grantee is also required to have its own Board of Directors, which assumes responsibility for the actual operations of each recipient (specifically, Section 1-7 of the *Accounting Guide for LSC Recipients* requires each recipient’s governing body to establish a financial oversight committee or committees).



Congress noted concerns surrounding LSC's oversight processes and highlighted the need for a timely resolution of the remaining issues in the Conference Report accompanying LSC's 2010 appropriation:

“Over the past three years, GAO, the LSC Inspector General and the Audit Committee of the LSC Board of Directors have issued multiple findings of management and oversight weaknesses at the Corporation. LSC has made a public commitment to address each of these findings, and, as evidenced by recent GAO testimony, has made progress by implementing necessary corrective actions in a number of areas. However, as also evidenced by GAO's testimony, additional work remains to complete the full list of recommended actions.

The conferees have been, and remain, concerned about these gaps in LSC's management and accountability controls, which leave the Corporation vulnerable to improper expenditures or instances of waste by grantees. The timely resolution of these remaining issues must be a Corporation priority.”<sup>8</sup>

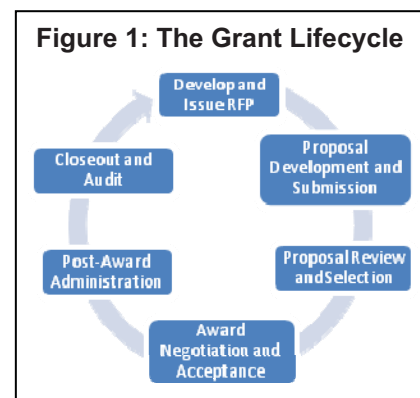
Subsequent to the identification of the need for the Fiscal Oversight Task Force, instances of misuse of funds at LSC grantees were discovered, further underscoring the importance of the Task Force's charge to strengthen LSC's fiscal oversight capabilities. These incidents ranged from questionable spending practices to theft by grantee employees. While the specific incidents were not the focus of the Task Force's activities, the recommendations presented in this report aim to enhance LSC's system of internal controls and reduce the risk of such incidents in the future.

### Key Concepts

Throughout this report, we refer to a series of key concepts that will help the reader to better understand the issues discussed (for a full description of terms used in this report, see **Appendix D**). In the following paragraphs, we define the concept of “fiscal oversight” and how it fits into the overall grants management structure, and describe the organizational structure and delineation of responsibilities for each group involved in grantee fiscal oversight.

#### Grants Management and Fiscal Oversight

Grants management refers to the different processes in the lifecycle of a grant (see **Figure 1**) associated with selecting a grantee and overseeing the performance of an awarded grant. These activities span from the development of a request for proposal (RFP), through the submission and evaluation of proposals and negotiation of terms, to the award and completion of a grant. Responsibilities include financial monitoring, accountability, reporting, record retention, equipment management, human resources operations, information security, and provision of legal services in compliance with applicable laws and regulations. Grants management is a collaborative effort between the grant-making agency and the grantee, with each party responsible for various activities throughout the lifecycle.



“Fiscal oversight” is a specific portion of activities undertaken to understand, evaluate, and monitor the processes and controls in place for the appropriate use and safeguarding of funds provided through the grant-making process. Grant-making organizations, such as LSC, are responsible for providing adequate fiscal oversight and review of the financial activities of grantees throughout the grant lifecycle. This includes both ensuring that the grantee has in place and follows a strong system of internal controls and

<sup>8</sup> Conference Report 111-366

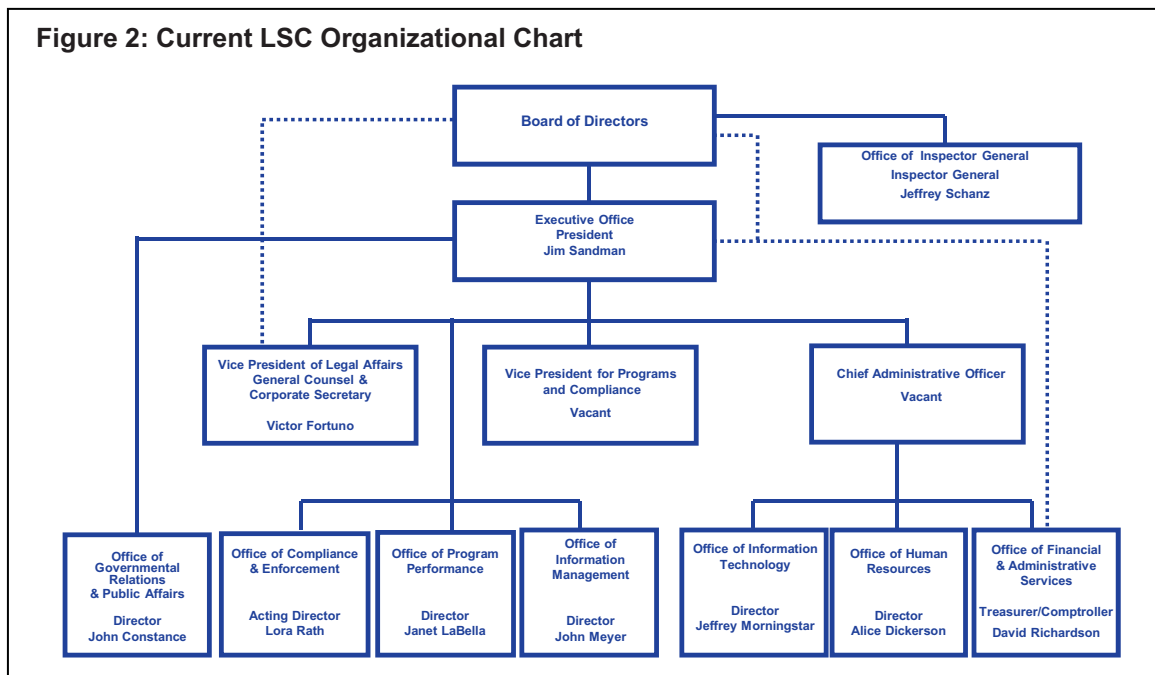
processes designed to safeguard the funds provided and that the funds are being used as intended within the rules and regulations governing their use.<sup>9</sup> Federal grantees are held to standards outlined in Federal regulations (Office of Management and Budget (OMB) Circular A-110 for nonprofit organizations or the Federal Acquisition Regulation for for-profit contractors), which describe specific requirements for processes and systems for monitoring and reviewing activities to prevent the misuse of funds. Although LSC and its grantees are not specifically subject to these regulations, the principles contained within these regulations are instructive for sound financial management.

LSC Organizational Structure

The Corporation is governed by a bipartisan eleven member Board of Directors, appointed by the President of the United States (and confirmed by the Senate) to serve three-year terms. The Board is the official head of the entity for LSC, and as such is responsible for ensuring that LSC is achieving its mission as provided in the LSC Act. The Board is responsible for hiring the President of the Corporation, who has the day-to-day leadership responsibilities for LSC. Currently, the President oversees LSC’s staff of nearly 100 employees and is responsible for the final approval of all awards made to the Corporation’s grantees.

To organize its daily operations, LSC is structured into eight different management offices, which ultimately report to the Executive Office of the President (see **Figure 2** for a depiction of the current LSC organizational structure). These include the:

- Office of Compliance and Enforcement (OCE)
- Office of Financial and Administrative Services
- Office of Government Relations and Public Affairs
- Office of Human Resources
- Office of Information Management (OIM)
- Office of Information Technology
- Office of Legal Affairs
- Office of Program Performance (OPP)



<sup>9</sup> For LSC’s purposes, fiscal oversight includes ensuring grantee’s compliance with the spending restrictions outlined in the LSC Act and other LSC regulations.

These offices' responsibilities span the organization, both internally and externally, with two offices in particular assuming the responsibility for grantee oversight. OPP organizes and leads the grant-making process, including assessing a grantee's capability to steward grant funds; makes recommendations to the President for grantee funding; and assesses compliance with qualitative performance standards. OCE is charged with reviewing grantee compliance with the LSC Act, regulations, instructions, guidelines, and grant assurances. These offices are supported by information collected and analyzed by OIM.

In addition to the eight management offices that report to the Executive Office of the President, the 1988 Amendments to the Inspector General (IG) Act of 1978 mandated the establishment of an OIG at LSC. The LSC OIG was thus established in 1989 as an "independent and objective unit to:

- Conduct and supervise audits and investigations relating to the programs and operations of [LSC];
- Provide leadership and coordination and recommend policies for activities designed (a) to promote economy, efficiency, and effectiveness in the administration of, and (b) to prevent and detect fraud and abuse in, [LSC]; and
- Provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action."<sup>10</sup>

The OIG has the ability to perform audits or reviews of both LSC's internal operations and the operations of its grantees, and has the responsibility for creating and monitoring a mechanism by which individuals may anonymously report instances of waste, fraud, or abuse and for fully investigating any such claims.

#### Inspector General Independence

While the OIG shares the goal of the organization it supports and has the responsibility to help promote its "economy, efficiency, and effectiveness," there is also a strict requirement for maintaining independence in OIG operations. Per the Inspector General Act,

"Each Inspector General shall report to and be under the general supervision of the head of the designated Federal entity, but shall not report to, or be subject to supervision by, any other officer or employee of such designated Federal entity. The head of the designated Federal entity shall not prevent or prohibit the Inspector General from initiating, carrying out, or completing any subpoena [sic] during the course of any audit or investigation."<sup>11</sup>

The LSC OIG website describes the OIG's two principal missions: "to assist management in identifying ways to promote efficiency and effectiveness in the activities and operations of LSC and its grantees; and to prevent and detect fraud and abuse." The OIG is also responsible for keeping the LSC Board and Congress fully informed about problems and deficiencies relating to the administration of LSC's grants and operations and the necessity for, and progress of, corrective actions. Currently, LSC's OIG:

- Undertakes reviews of LSC and its grantees as the OIG deems necessary;
- Develops its own budget request and annual work plan;
- Maintains a required relationship with the United States Attorney General for referring cases of criminal violations;
- Subjects itself to periodic quality reviews by The Council of the Inspectors General on Integrity and Efficiency (CIGIE) in accordance with CIGIE *Quality Standards for Federal Offices of*

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<sup>10</sup> Inspector General Act, §2

<sup>11</sup> Inspector General Act, §8G(d)

*Inspector General and Government Auditing Standards* issued by the Comptroller General of the United States (commonly known as the “Yellow Book”);

- Receives oversight from Congress, providing a semi-annual report of activities completed and results of audits, investigations, or other reviews and meeting with Congressional staff, as needed; and
- Receives “general supervision” from the LSC Board and provides updates and communication during the quarterly Board meetings (both during the open and closed sessions and separately with the Board's Audit Committee).

In the past year, the Board and OIG have worked together to develop a performance communication process in furtherance of the Board’s responsibility to provide “general supervision” to the OIG.

#### IPA Audit Process

The 1996 LSC Appropriations Act further defines the requirement for an annual audit of grantees (as outlined in the LSC Act), stating, “[t]he audits required under this section shall be provided for by the recipients and performed by independent public accountants.”<sup>12</sup> These audits are to be conducted in accordance with Yellow Book standards and guidance issued by the OIG (contained within LSC’s *Audit Guide for Recipients and Auditors*).

The IPA audit process is designed “to determine whether:

- The [grantee’s] financial statements are presented fairly, in all material respects, in conformity with Generally Accepted Accounting Principles (GAAP), or other Comprehensive Basis of Accounting;
- The [grantee’s] internal control structure provides reasonable assurance that the recipient is managing funds, regardless of source, in compliance with applicable Federal laws and regulations, and controls are in place to ensure compliance with the laws and regulations which could have a material impact on the financial statements; and
- The recipient has complied with applicable provisions of Federal law, Corporation regulations, and grant agreements, regardless of source of funds, which may have a direct and material effect on its financial statement amounts and on the LSC program.”<sup>13</sup>

While the IPA audit process considers a grantee’s internal control structure as it relates to the financial statements and compliance with laws and regulations, the IPA audits are not designed to provide positive assurance on a grantee’s internal control structure.

The OIG-created *Audit Guide for Recipients and Auditors* and the related Compliance Supplement serve to “provide a uniform approach for audits of LSC recipients and describe recipients’ responsibilities with respect to the [annual IPA] audit,”<sup>14</sup> incorporating specific information related to the application of the Yellow Book standards within LSC’s grant environment and principles from OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Management has the ability to work with the OIG in providing input to the guide.

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<sup>12</sup> H.R. 3019, Sec. 509(c)

<sup>13</sup> LSC *Audit Guide for Recipients and Auditors*, II-1.A. Objectives

<sup>14</sup> LSC *Audit Guide for Recipients and Auditors*, I-1. Purpose

### ***Standards Applied by the Fiscal Oversight Task Force***

In completing its analysis, the Task Force relied on best practices and frameworks established by:

- The Committee of Sponsoring Organizations of the Treadway Commission (COSO) – *Internal Controls – Integrated Framework*
- COSO – *Guidance on Monitoring Internal Control Systems*
- GAO – *Standards for Internal Control in the Federal Government*
- The Council of the Inspectors General on Integrity and Efficiency – *Quality Standards for Federal Offices of Inspector General*
- The Domestic Working Group’s Grant Accountability Project – *Guide to Opportunities for Improving Grant Accountability*

The COSO and GAO frameworks provide general guidance related to the development of internal controls systems and the benefits of such controls. The Domestic Working Group’s *Guide to Opportunities for Improving Grant Accountability* describes in detail how oversight organizations have implemented successful practices for monitoring all phases of grants management. These practices were shared to “offer suggestions for improving grant accountability” and were aimed to address what grant-making agencies can do to promote the effective and efficient use of grant funds through the use of internal controls and performance measures.

## Assessment of LSC Fiscal Oversight

LSC was established to facilitate the provision of civil legal assistance to individuals who are at or below an established poverty level. The Corporation's main roles in this process are to provide grants to legal services organizations across the country through a grant-making process and oversee program quality and compliance with statutory and regulatory requirements accompanying LSC awards.

### **Current State**

#### Organizational Identity and Mission

The Corporation operates in a complex environment that currently includes 136 independent grantee organizations with 919 office locations, each with its unique operating risks and concerns. LSC holds ultimate responsibility for ensuring the proper use of its Congressional funding, including through its fiscal oversight of grantees, and through its assessment of the quality of the legal services provided by its grantees in support of its mission (though program quality assessment fell outside of the scope of the Task Force's review).<sup>15</sup> LSC is strongly focused on its mission of funding civil legal services to low-income Americans pursuant to the LSC Act. In line with these organizational objectives, LSC has devoted considerable resources to overseeing the quality of such legal services. LSC's Board, management, and Office of Inspector General have recognized that there are opportunities, as a grant maker, to increase focus on grantee fiscal oversight and internal control mechanisms.

LSC has established the foundation for a strong control environment, creating guidance through the *Accounting Guide for LSC Recipients*. To supplement this guidance, the Corporation also conducts reviews of grantee operations through OPP and OCE, using a system of site visits and grantee-reported information combined with the annual IPA audits. As further evidenced by the recent findings from OIG and GAO audits, there are specific areas in which LSC can continue to build upon its existing foundation.

The current leaders within the Board, management, and OIG have demonstrated a commitment to organizational development. In the past 18 months, the Corporation has addressed gaps identified through the GAO audits and made strides toward enhancing overall processes for strengthening the fiscal oversight process.

#### Communication and Coordination among the Board, Management, and OIG

LSC experiences a high level of leadership and management turnover, with the Board of Directors effectively transitioning with each U.S. Presidential administration and a total of 25 LSC Presidents serving in the Corporation's 37 years of existence (including three in the period between the first review by the GAO and the writing of this report). With such leadership and management turnover, it can be difficult to ensure consistency in the organizational culture regarding fiscal oversight and accountability within the Corporation. The Corporation also experiences inefficiencies during these periods of transition, as it must work to bring the new Board and senior leaders up-to-speed on its operations, responsibilities, and procedures.

Over many years, LSC's fiscal oversight process and participants evolved to include numerous groups (i.e., OPP, OCE, OIM, OIG, and the IPAs), sometimes resulting in:

- Ambiguity regarding the roles and responsibilities of each (see **Figure 3** for a depiction of the fiscal oversight roles throughout the grantee process);<sup>16</sup>

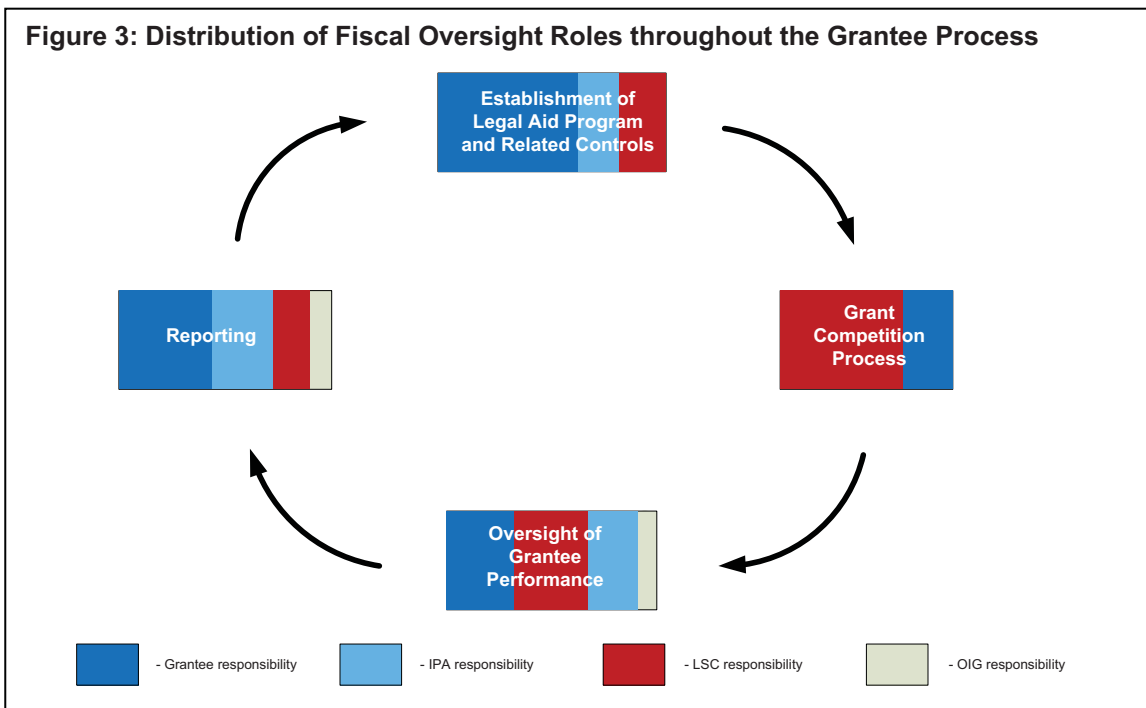
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<sup>15</sup> This responsibility is incumbent on the Board, as the entity head, though many of the related responsibilities have been delegated to management.

<sup>16</sup> Additional detail can be found in **Appendix E**.



- Imprecise communication and coordination among the various groups, particularly within the LSC management offices and between the OIG and LSC management; and
- Challenges in sharing information throughout the organization and keeping each group fully informed of the activities of the others.



This structure has created challenges in developing a comprehensive, effective, and efficient system for fiscal oversight. Each group maintains its own detailed policies and procedures. Though the Board issued a resolution related to the responsibilities of each office in 2008,<sup>17</sup> this document provides only a generalized overview and does not speak to specific activities that need to be completed. This makes it difficult to understand specifically where the lines are drawn between one office’s role versus another’s, and lessens the culture of accountability.

Additionally, misunderstanding arose following the issuance of the 1996 Congressional appropriations bill, which has been continued as a rider with every subsequent appropriation. The accompanying Conference Report stated that, “only the Office of Inspector General shall have oversight responsibility to ensure the quality and integrity of the [IPA] financial and compliance audit process.”<sup>18</sup> Interpretations of this language have varied significantly among subsequent members of LSC’s Board, management, and the OIG with respect to LSC’s fiscal oversight activities and the appropriate party responsible for action regarding the information provided by the IPAs within LSC’s overall process for grantee fiscal oversight. In the past, this led LSC’s management offices to view the activities of the OIG and IPAs as replacing certain aspects of management’s responsibilities, and thus created a gap in what should be a holistic approach to grantee fiscal oversight. Current LSC leadership (both the Board and management), however, does not hold these views. In addition, relationships between LSC’s management functions and the OIG had historically been strained, which created a culture of defensive postures and frustration rather than one of cooperation and collegiality in the shared goals of fiscal oversight.

<sup>17</sup> Board Resolution 2008-008 (and 2008-008a), Roles and Responsibilities of LSC Offices Responsible for Grantee Oversight

<sup>18</sup> House Rpt. 104-537



The IG Act vests the Board, as LSC's statutorily established entity head, with certain supervisory responsibilities relating to the OIG, including the authority to hire and terminate the Inspector General (with appropriate notification to Congress). The relationship between the Board, management, and the OIG has improved in recent years, as the Board and LSC President have increasingly focused on providing appropriate fiscal oversight over grantees. LSC leadership possesses a healthy respect for, and understanding of, the need for maintaining the OIG's independence and autonomy, and recognizes the OIG's potential for helping to increase the efficiency and effectiveness of LSC operations. Currently, the LSC President and Inspector General meet bi-weekly to discuss ongoing matters of concern and facilitate information-sharing between the OIG and management. Additionally, the OIG is on the agenda three times at each quarterly Board meeting (both during the open and closed sessions with the full Board, and with the Audit Committee).

OMB has issued a set of principles to assist in developing efficient working relationships between agencies and Offices of Inspector General. In 2005, the Chairman of LSC's Board asked the LSC President and Inspector General to "adopt these principles" to guide the relationship moving forward. These principles include:

- Foster open communications at all levels
- Interact with professionalism and mutual respect
- Recognize and respect the mission and priorities of the Agency and the OIG
- Be thorough, objective, and fair
- Be engaged
- Be knowledgeable
- Provide feedback

The current Inspector General works to follow these principles in his office's interactions with the Board and management, though there is no formal documentation related to the expectations, responsibilities, and relationships between these groups. While these principles help to establish a baseline expectation for agency/OIG relationships, the OMB clarified that, "[t]o work most effectively together, the Agency and OIG need to clearly define what the two consider to be a productive relationship and then consciously manage toward that goal in an atmosphere of mutual respect."

#### Grantee Fiscal Oversight Process

The Corporation's on-site grantee reviews have historically focused on the legal cases handled by the grantees and their compliance with restrictions on use of funding. A broader view of the grantees' overall management structure and ability to steward LSC-provided funds has not been a focus of these reviews. Individual grantee review team members focus on completing their assigned work steps without sharing information real-time while on-site, which could cause team members to overlook other signs of risk or concern. The assessment of internal controls is limited to evaluating segregation of duties based on interviews or written documentation provided by the grantees. Additionally, most of this focus is provided after funds have been awarded to a recipient, rather than prior to issuing the grant.

#### Knowledge, Skills, and Experience

Consistent with LSC's focus on funding legal services to low-income Americans, the experience and expertise of OCE and OPP staff come primarily from the legal profession and from having previously worked for a grantee program. Our review suggests that the majority of staff conducting on-site reviews has not received directed training in internal controls or in accounting. New employees are instructed to review the specific prohibitions on the use of funds listed in the LSC Act in their assigned review areas, but do not receive additional guidance or training on internal controls concerns or review procedures to help identify grantee fiscal issues. Additionally, because the LSC Act requires the LSC President and a

majority of the members of the Board to be “members of the bar of the highest court of any State,” LSC’s senior leaders are attorneys who may or may not possess deep financial expertise.

### ***Progress Made***

While the Corporation has always placed a premium on assessing the quality of the services provided by its grantees, in recent years LSC leadership has begun to increase its emphasis on the fiscal oversight and compliance aspects of its role as a grant-making agency for over \$400 million of taxpayer money. This has included the Board’s creation of the Task Force, as well as enhancements to the daily operations of management. The new Board members and LSC President (beginning with the interim President appointed at the beginning of 2010) have worked to instill a greater focus and commitment to fiscal oversight. Furthermore, the current LSC President and Inspector General have made strides in cultivating a cooperative relationship between management and the OIG, helping to strengthen management’s fiscal oversight processes and the universe of fiscal oversight of grantees.

In addition, of the 50 “promising practices” identified in The Domestic Working Group’s Grant Accountability Project – *Guide to Opportunities for Improving Grant Accountability*, LSC has similar practices in place for eleven and partial practices in place for 28 of its grantee oversight processes<sup>19</sup> (see **Appendix F** for additional detail). This further evidences the Corporation’s measures to strengthen its grantee fiscal oversight practices.

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<sup>19</sup> The Domestic Working Group’s report included 50 specific “promising practices” across all aspects of grants management, including fiscal oversight. While the Task Force considered LSC’s status against all of these practices, it based its review of non-fiscal oversight processes on discussions with management.

## Recommendations

The Corporation has also designed new processes to address issues identified by the GAO, in furtherance of its goal to enhance its role as a highly effective grant maker. The Task Force intends the recommendations presented in this report to assist LSC in further improving its fiscal oversight capabilities and current processes.

### ***I. Organizational Identity and Mission***

LSC should clarify and affirm the Corporation's responsibilities related to grantee fiscal oversight. LSC should strive for consistency in the degree of energy, commitment, enthusiasm, and productivity for fiscal oversight across the entity. To maintain LSC's current focus on organizational development and allow the Corporation to continue to function at a high level, regardless of changes in leadership, it will be important to establish a consistent "tone at the top," define and promulgate a strong organizational culture, and continue to keep the Board active and engaged in its oversight of LSC's operations. The Task Force recommends that LSC:

1. Inventory the activities necessary to provide full and complete fiscal oversight of grantees. Use this information to inform the activities described in Recommendation II.A-3.
2. Address fiscal oversight responsibilities during the Corporation's strategic planning and goal-setting process.
3. Develop and regularly report on the results of fiscal oversight-related performance measures and expectations.
4. Memorialize and communicate fiscal oversight responsibilities and goals across the organization.
5. Continue to promulgate a strong "tone at the top" that promotes the importance of LSC's fiscal oversight activities.
6. Draft, agree-upon, and promote a detailed description of LSC's intended culture, balancing an emphasis on grantee program quality, compliance, and fiscal responsibility with an organizational dynamic that results in high morale and commitment of LSC's people.
7. Reinforce the purpose and role of the OIG throughout the Board and LSC staff.
8. Ensure a high-level of coordination between grantee program and fiscal oversight in order to inform each set of oversight activities and identify any grantee "red flags."

## **II. Communication and Coordination among the Board, Management, and OIG**

LSC should build upon the progress that it has made to date in the strengthening of the focus on oversight and compliance and of the relationships among LSC's Board, management, and the OIG. Documenting and memorializing the expectations and operating practices for each participant's role should enable this progress to be maintained during periods of leadership transition.

### **A. Roles and Responsibilities**

Fiscal oversight roles should be defined and clarified among all parties (e.g., Board, management, OIG, IPAs) to: ensure that all necessary activities are being undertaken; document and formalize appropriate relationships; enable smoother coordination and communication; and to greater benefit from the OIG's expertise and independence. While management cannot abdicate its responsibilities for fiscal oversight and the OIG's activities cannot be circumscribed, LSC should, wherever appropriate, leverage the resources available to it and avoid duplication of effort. Implementing these recommendations should not dilute, but rather enhance, the level of focus of the different groups responsible for program support, compliance, and fiscal oversight. The Task Force recommends that LSC:

1. Consolidate management's oversight responsibilities, currently dispersed among OPP, OCE, and OIM, into one office (called the Office of Grantee Assessment (OGA) for purposes of this report).<sup>20</sup>
2. Appoint a Vice President-level individual to lead OGA whose background includes grants management and internal controls.
3. Institute a "cradle-to-grave" approach to grants management and fiscal oversight within OGA. Consider designating multi-disciplinary Oversight Teams that are responsible for all aspects of the grant process, from assessing the capability of grant applicants to receive grant funds, evaluating proposals for funding, and making grantee funding recommendations to the LSC President, to performing post-award monitoring of performance and management processes. Consider distributing grantee assignments among the Oversight Teams based on a relevant dimension (e.g., funding level, geographic location, constituency profile, program size and complexity), allocating the workload as evenly and effectively as possible.
4. Gain a shared understanding of the division of roles and responsibilities related to grantee fiscal oversight and monitoring by having each office (e.g., OGA and OIG) document its specific activities and areas of responsibility.
5. Obtain Board approval of the documented roles and responsibilities, distribute the document throughout the organization, and memorialize it for future reference (including orientation of future Board members and new employees).
6. Rotate the composition of staff members within each review team on a routine basis consistent with best practices.
7. Coordinate closely between management and the OIG to eliminate redundancy and improve management's effectiveness in evaluating IPA audit results, among other things. This recommendation should not replace or interfere with the OIG's charge to oversee the IPA process, including the OIG's responsibility for evaluating the capability and effectiveness of the IPA firms.

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<sup>20</sup> Though not the focus of the Task Force's review, this recommendation envisions that OPP's current responsibility for assessing program quality would also become a responsibility of OGA.

8. Continue the efforts of LSC's Board, leadership, and the OIG to ensure consistency in LSC's culture and environment of fiscal oversight and accountability.

#### **B. Board's Responsibility for Fiscal Oversight**

In the Board's role as the head of the entity, it must reliably receive and evaluate information that concerns governance, fiscal oversight, and the operations of the Corporation. For the Board to fulfill its fiduciary role, the flow of information to the Board from management and the OIG should be formalized, and maintained or increased, per the recommendations below. The Board should establish clear procedures to ensure appropriate supervision of management and the Inspector General, to increase channels of communication, and to cultivate mutually cooperative and supportive relationships. Accordingly, the Task Force recommends that LSC:

1. Formalize the level of fiscal oversight-related information shared by management and the OIG with the Board or its designated committees, such as through regular reporting of the following items:
  - a. Ongoing results of audits or reviews of grantees and LSC management;
  - b. Types, trends, and resolution of potential issues resulting from external complaints, tips, or investigations;
  - c. Summary and general resolution of identified conflicts of interest; and
  - d. Status of resolution of issues identified through grantee reviews.
2. Clarify and formalize protocols for regular interaction between the Board and OIG, referencing the OMB-issued principles described on page 10, to guide discussion and documentation of the responsibilities and expectations for the working relationship. These protocols should include the following areas:
  - a. Providing feedback into the OIG's annual work plan;
  - b. Exercising the Board's responsibility and ability to request the OIG's involvement in critical areas of concern to the Board;
  - c. Establishing accountability and performance measures related to the OIG's annual activities, consistent with the needs of the OIG to exercise its independent judgment in conducting its investigations, audits, and other operations; and
  - d. Understanding the areas in which the OIG needs resources and how the Board can serve as an advocate.
3. Consider establishing a direct line of communication between the Board or its designated committee and the Congressional oversight committee.

### **C. Management and OIG Relationship**

LSC should take the opportunity to build upon the already-established collegial and mutually respectful working relationship between the LSC President and the Inspector General.

1. Develop a written set of protocols and guiding principles to govern the working relationship between the OIG and management, such as:
  - a. Formalizing the improvements in the relationship that have already been made, including regularly scheduled meetings and two-way communication between the OIG and management;
  - b. Documenting how and when pertinent information (including both final reports and preliminary or undocumented observations, concerns, or other information) should be shared to promote proactive cooperation and maximize the effectiveness and benefit of each group's activities; and
  - c. Sharing an understanding of the types of situations in which, due to the nature of the issues (e.g., investigations or criminal proceedings), the OIG will not be able to share information and will need to request limited involvement by management while a sensitive matter is pending.
2. To provide for sharing of best practices or common challenges, engage LSC personnel, including OGA and OIG staff, in internal improvement initiatives, such as evaluating the annual grant completion process, reviewing the standard on-site grantee review work plan, and assessing the appropriateness of the level and type of information reported by LSC grantees. The OIG's involvement must be within the appropriate scope considering its independence requirements and limitations on non-audit services as described in the Yellow Book, but should allow for increased discussion and the sharing of ideas to the greater benefit of LSC's operations.

### **III. Grantee Fiscal Oversight Process**

Developing a shared understanding of risks facing LSC should help to maximize the resources available for, and improve the overall level and effectiveness of, oversight activities. The Task Force believes that a robust, appropriately-resourced OIG is a vital component in helping LSC to improve and maintain the effectiveness of its operations. Though the following recommendations are primarily directed toward LSC management's operations, we encourage the OIG to evaluate and consider the Task Force's recommendations to the extent that they are also applicable to OIG operations.

#### **A. Risk Assessment Process**

An LSC risk assessment process should include identifying financial risks and defining current methods and best practices for addressing such risks through fiscal oversight. Taking into account the perspectives of the OIG should not jeopardize the OIG's independence or ability to conduct its own risk assessment. The Task Force recommends that LSC:

1. Institute an LSC-wide risk assessment process that takes into consideration information from multiple sources, including input of the OGA, OIG, IPA, and GAO audit and assessment results.
2. Regularly share any grantee "red flags" among OGA and OIG to bridge the periodic risk assessment process.
3. Continue the practice of selecting grantees to be reviewed based on a formal risk assessment process to identify high-risk grantees (based on a number of factors, including level of funding, performance in previous reviews, prior complaints or allegations, leadership concerns, etc.).
4. Establish a standard cycle for how frequently grantees receive an on-site review (e.g., at least once every four years). Review each year a certain percentile of grantees deemed the highest-risk (e.g., the top 15th percentile from each year's risk assessment). This method may result in certain grantees receiving reviews as frequently as back-to-back years, but will help to provide the most effective use of LSC's resources in safeguarding the funds provided.
5. Consolidate within LSC the process for tracking recommendations made to grantees and their plans for corrective action. Recommendations for improvement should be agreed to by the grantee (or effectively refuted) and included in the final issuance of the report with a realistic date for implementation. LSC should establish a program for timely follow-up on the status of progress against plans based on the significance and materiality of the recommendations.<sup>21</sup>

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<sup>21</sup> Major recommendations may require a follow-up visit, while corrective action on minor items may be reviewed during the next scheduled site visit.



## **B. Scope of Management's Grantee Reviews**

Management's grantee reviews should comprehensively address financial risks, both prior to grant award and post-award.

1. Based on the results of Recommendation I.A-1, design the fiscal oversight program within the OGA to provide adequate coverage of all financial risks arising from a grantee's operations. Expand the scope of grantee reviews (both prior to and after awarding funds) to place a greater emphasis on the existence and design of internal controls and administrative processes regarding financial management and program compliance.
2. Increase the focus given to evaluating grantees' adherence to the guidance and expectations established in the *Accounting Guide for LSC Recipients*.
3. Increase the scope and frequency of grantee capability assessments, particularly prior to awarding funds to a new grantee, to ensure that programs and resources are in place to appropriately manage funds received. Capability assessments should also be re-performed for all grantees meeting a to-be-determined threshold (e.g., a particular level of funding or length of time since the last assessment).
4. Consider the ability to coordinate with other major funders of civil legal services (such as state bar foundations and Interest on Lawyers Trust Accounts (IOLTA) programs) on oversight issues and common concerns or best practices.

## **C. Approach to Management's Grantee Reviews**

The scope of management's grantee reviews should be risk-based and tailored to individual grantees. LSC should create systems to support timely and efficient sharing of appropriate information about grantees and monitoring of the status of grantee corrective actions.

1. Document and share observations and recommendations of grantee reviews promptly to allow time for grantees to implement corrective actions and for LSC's oversight functions to incorporate the results into their risk assessments and work plans.<sup>22</sup>
2. Establish a process for setting risk-based objectives for each grantee review, including the design of specific procedures intended to address these objectives. (These objectives will likely be tied to issues raised through the annual risk assessment.)
3. Conduct a team "kick-off" meeting during the planning phase of each grantee review to allow all team members to provide input into the work plan and/or assist in developing specific procedures.
4. Determine guidelines for evaluating the necessary duration of each on-site review and maintain flexibility in allocating time to site visits based on risk assessment, scope, and complexity.
5. Develop an accompanying budget and project plan for each grantee review work plan to understand the length of time required on-site at the grantee and the level of complexity for each review. This will help OGA to better plan and prioritize the number and extent of reviews that can be completed in a given year, and can help to improve the efficiency of the annual budget request process (including providing justification for increased budget levels, when necessary).

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<sup>22</sup> Although 60 days was established as the maximum time period in which to issue reports of grantee on-site reviews, LSC should strive to issue reports as soon as possible, with an average issuance period of less than 60 days.

6. Increase the level of oversight activities completed in addition to the on-site review process, such as reviewing information or performing data analytics on material that can be provided by the grantees in advance or outside of the planned review cycle (e.g., documented policies and procedures, Grant Activity Reports, Case Service Reports, other grantee-reported information). While this information likely cannot be used to perform a complete assessment of internal controls, compliance, or evaluation of performance (because of the various types of cases and constituency supported by each grantee), LSC should be able to use this information to identify trends or red flags that would raise concerns to be included in the risk assessment process or as a focus of the on-site review process.
7. Create a common system for the storing and viewing of appropriate information related to grantee operations and oversight, including general grantee demographic information (e.g., payments to date, date of last review) and specific information related to oversight activities (e.g., prior recommendations and status of corrective actions, budget monitoring tools, performance metrics) among all parties involved in fiscal oversight.
8. Conduct a cost-benefit analysis related to the level of information collected from grantees to determine if additional information would be practical to obtain from grantees and useful for management's fiscal oversight activities while not placing an undue burden on grantees, and to determine if the information currently collected is necessary.

#### **D. Conflicts of Interest**

LSC should identify, monitor, and disclose conflicts of interest related to staff and grantees.

1. Create a process to allow for the identification and management of potential conflicts related to staff's prior or ongoing relationships or association with grantees.
2. Provide for adequate disclosure and review of activities where conflicts (real or perceived) may exist.
3. Clarify conflict of interest reporting requirements.

#### **IV. Knowledge, Skills, and Experience**

The governance and fiscal oversight provided by LSC and its grantees should be supported by individuals with knowledge of LSC-related risks as well as strong financial expertise.

##### **A. Board of Directors**

1. Encourage the sequencing of Board appointments by staggering the terms of Board members so as to enable continuity and avoid wholesale turnover of Board members (as permitted by the LSC Act).
2. Expand the practice of recruiting non-Board members with experience in accounting, finance, and internal controls to serve on key financial-related committees (such as the finance and audit committees) to provide specific expertise and enable greater continuity during transition periods in Board appointments.

##### **B. LSC Employees**

1. Identify the types of knowledge, skills, and training needed for employees filling fiscal oversight roles within the new OGA structure.<sup>23</sup>
2. Compare the needed knowledge and skills against the skill set represented by the employees currently holding fiscal oversight responsibilities to identify areas for supplementing skills.
3. Based on these identifications, work to retain the existing talent with the right skill sets and identify how to develop these skills in the remaining staff. If necessary, implement a focused hiring plan to increase the level of requisite knowledge among the staff.
4. Institute a training program (leveraging existing skills if possible) designed to maintain the necessary level of knowledge (including understanding emerging risks and challenges) and to develop new employees. Training programs should provide for ongoing, continuing education throughout an employee's tenure, as best practices and risk factors are constantly evolving, and should involve a new employee on-boarding component, to allow for consistency in the type and level of knowledge held by fiscal oversight staff.
5. Management should work with the OIG to leverage skills and experience within the OIG to provide additional training or guidance to OGA staff in developing fiscal oversight capabilities and best practices.

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<sup>23</sup> As a part of LSC's response to GAO's 2010 audit, management stated that it has asked the leaders of each office involved in grantee oversight to "develop a list of their staffing and training needs" to be incorporated into the FY 2012 budget request and into the Corporation's new strategic plan.

### **C. Grantees**

1. Identify and communicate expectations and responsibilities to grantees, and the related best practices or recommendations for grantee management, including placing an increased emphasis on the guidance in the *Accounting Guide for LSC Recipients* and any specific terms and conditions contained in the grant agreement with LSC.
2. In particular, set clear expectations with grantees that they are responsible for creating a culture of ethics, compliance, and a system of financial controls designed to deter and detect fraud and promote the effective and efficient use of funds received. Help grantees to achieve this culture and system through training or otherwise, especially when requested. This could include holding simple webinar programs on a rotating basis and providing an increased level of information targeted toward grantees through the LSC website. Also, help grantees to understand the legal and statutory context of LSC's fiscal oversight activities (e.g., LSC's responsibilities as a grant maker dispensing public funds).
3. Provide a training program or other resources to grantees that are new to LSC funding or have identified risks in their capacity to steward the funding provided.
4. Consider the formation of "communities of practice" or networks of support among grantees, to allow grantees to learn from identified strong performers and possibly to receive additional guidance related to designing and implementing an appropriate control and management environment.
5. Encourage grantee Boards of Directors to appoint non-Board members with experience in accounting, finance, and internal controls to serve on the grantee's key financial-related committees (such as the finance and audit committees), where needed.

### **D. Independent Public Accountants**

1. Coordinate with the OIG to evaluate the *Audit Guide for Recipients and Auditors* and the related Compliance Supplement. Though audit bulletins have been published throughout the years to incorporate changes in audit standards, the whole of the documents has not been updated since 1996 and 1998, respectively. Consider changes to technology and best practices related to internal controls in assessing changes needed to the information and guidance provided.
2. Work with the OIG to provide guidance or additional training for the IPAs that conduct annual audits of grantees, providing updates related to changes to the *Audit Guide for Recipients and Auditors* or identification of common or emerging risk areas to be included in the IPAs' audit planning.

## Conclusion

The Task Force acknowledges the Corporation's leadership for its demonstrated commitment to addressing the gaps noted by the GAO's audits and its desire to continue strengthening its processes for fiscal oversight. Though there are many steps involved in ensuring a "gold standard" in fiscal oversight, LSC has begun this journey and created a strong foundation to support it. We encourage the Board, management, and the OIG to consider the recommendations presented within this report and to use the information to further enhance its processes and fiscal oversight controls with grantees.

The Task Force understands that no system of internal controls is flawless, and the risk of fraud and abuse cannot be fully removed. However, designing an effective system of controls and "checks and balances" enhances deterrence by increasing the level of collusion or circumvention of controls needed for improper conduct. Additionally, strengthening the control environment increases the sense of accountability and responsibility within an organization, making it more likely that improper conduct will be identified and reported. A strong system of internal controls and oversight helps an organization to identify complications or gaps in processes, allowing for a continuing cycle of self-improvement to enhance the efficiency and effectiveness of operations.

While "perfect" fiscal oversight may be unattainable, developing and promoting a system of strong internal controls, strengthening cooperation among oversight groups, and establishing training programs and resources will allow LSC to improve its fiscal oversight operations and provide for the most effective and efficient use of funding. This will enhance LSC's ability to advance its mission of funding high-quality civil legal services for millions of low-income Americans.

## Appendix A – Fiscal Oversight Task Force Members



**John G. Levi**, Chairman of the LSC Board and a partner in the Chicago Office of Sidley Austin. He has been involved in access to justice issues for many years, serving on the Cook County Citizens' Committee for the Juvenile Courts and the Board of the Jane Addams Juvenile Court Foundation. Mr. Levi also serves on the Advisory Board for the Northwestern University Law School Center on Wrongful Convictions.

### Co-Chairs of the Task Force:



**Robert J. Grey, Jr.**, a member of the LSC Board and a partner with Hunton & Williams. He is a former president of the American Bar Association.



**Victor B. Maddox**, a member of the LSC Board and a partner with Fultz Maddox Hovious & Dickens. He is a former Department of Justice trial attorney and a former counsel at the U.S. Senate Judiciary Committee.

### Members of the Task Force:



**Christian L. Campbell**, Senior Vice President, General Counsel, Secretary, and Chief Franchise Policy Officer for Yum! Brands, Inc.



**Jane Elizabeth Curran**, Executive Director of the Florida Bar Foundation and a leading expert on Interest on Lawyers' Trust Accounts (IOLTA).



**M. Christine DeVita**, Former President of The Wallace Foundation and an expert on innovative philanthropic practices.



**Terry M. Fraser**, Principal, LarsonAllen LLP. She is a certified public accountant with more than 30 years of experience working with and advising nonprofit organizations across the nation. She serves as LarsonAllen's liaison to the AICPA Government Audit Quality Center and had responsibility for setting the quality and training standards for the firm's auditors in performing audits under OMB Circular A-133.



**Robert E. Henley, Jr.**, Former Managing Partner of Ernst & Young's Central Virginia practice. He is a certified public accountant and has extensive experience in assisting clients with internal control assessments and with auditing and reporting on internal controls. Mr. Henley currently serves as a non-Board member representative on LSC's Finance Committee.





**David H. Hoffman**, Partner at the law firm Sidley Austin and Former Inspector General for the City of Chicago. Mr. Hoffman also served as an Assistant U.S. Attorney in Chicago for seven years and as a commissioner on the Illinois Reform Commission, created in 2009 in response to the indictment of Governor Blagojevich. A graduate of Yale University and the University of Chicago Law School, he served as a law clerk for U.S. Supreme Court Chief Justice William H. Rehnquist and currently teaches *Public Corruption and the Law* at the University of Chicago Law School.



**Alan Jenkins**, Executive Director of The Opportunity Agenda. Before joining The Opportunity Agenda, he was Director of Human Rights at the Ford Foundation, managing more than \$50 million in annual grant-making. He also has served as Assistant to the Solicitor General at the U.S. Department of Justice. A graduate of the Harvard Law School, he served as a law clerk to Supreme Court Justice Harry A. Blackmun.



**Fr. Pius Pietrzyk, OP**, a member of the LSC Board and a priest in the parish of St. Thomas Aquinas in Zanesville, Ohio. Prior to that, he worked for three years in the Corporate and Securities practice of Sidley Austin LLP in Chicago.



**Ronald M. Shaich**, Co-Founder of the Panera Bread Co. and Executive Chairman of the company's board. He has more than 25 years of experience as a chief executive.



**Paul L. Snyder**, Former Managing Partner at KPMG. He is a certified public accountant and widely recognized expert on internal financial controls.



**Allan J. Tanenbaum**, General Counsel and Managing Partner of Equicorp Partners. He has advised boards of directors concerning corporate governance, represents the State of Georgia in the American Bar Association's House of Delegates, and is a past president of the Atlanta Bar Foundation.



**Nikki L. Tinsley**, Former Inspector General for the Environmental Protection Agency from 1998 to 2006. She is also a consultant and certified public accountant, overseeing nationwide audits.



**Douglas N. Varley**, a lawyer with Caplin & Drysdale's Washington office. His practice focuses on advising exempt organizations, including private foundations. He previously administered grant-making programs at the National Endowment for the Humanities.



**Michele S. Warman**, General Counsel and Secretary of The Andrew W. Mellon Foundation. As General Counsel and Secretary for over a decade, Ms. Warman works closely with the Foundation's Board of Trustees and oversees legal matters, grants management, program budgets, and assists in the day-to-day management of the Foundation. Prior to joining the Andrew W. Mellon Foundation, Ms. Warman worked at the law firm of Davis Polk and Wardwell.



The Task Force was also supported by members of LSC and Baker Tilly, including:

Legal Services Corporation

**James J. Sandman** – President, Legal Services Corporation

**Victor M. Fortuno** – Vice President for Legal Affairs, General Counsel, & Corporate Secretary

**Rebecca D. Weir** – Assistant General Counsel

Baker Tilly

**Raina Rose Tagle**, CPA, CISA, CGFM – Partner

**Kimberly Ginn**, CIA – Director

**David Clark**, CIA, CFE – Manager

**Adrienne Larmett** – Senior Consultant

## **Appendix B – Interviews Conducted**

The following personnel participated in facilitated sessions or individual interviews:

### Legal Services Corporation Management

#### *Executive Office of the President*

**James J. Sandman** – LSC President

#### *Office of Compliance and Enforcement*

**Danilo Cardona** – Director (retired May 31, 2011)

**Lora Rath** – Acting Director

**Thomas Enright** – Program Analyst

**Lewis Goldstone** – Program Analyst

**Bertrand Thomas** – Program Counsel

#### *Office of Financial and Administrative Services*

**David Richardson** – Treasurer and Comptroller

#### *Office of Government Relations and Public Affairs*

**John Constance** – Director

#### *Office of Information Management*

**John Meyer** – Director

#### *Office of Information Technology*

**Jeffrey Morningstar** – Director

#### *Office of Legal Affairs*

**Victor M. Fortuno** – Vice President for Legal Affairs, General Counsel, & Corporate Secretary

#### *Office of Program Performance*

**Janet Labella** – Director

**Willie Abrams** – Program Analyst

**Reginald J. Haley** – Program Analyst (Competition)

Office of Inspector General

**Jeffrey E. Schanz** – Inspector General

**Joel Gallay** – Acting Assistant Inspector General for Investigations

**David Maddox** – Assistant Inspector General for Management & Evaluation

**Ronald “Dutch” Merryman** – Assistant Inspector General for Audits

**Laurie Tarantowicz** – Assistant Inspector General and Legal Counsel

Fiscal Oversight Task Force Members

**John G. Levi** – Chairman, LSC Board of Directors

**Robert J. Grey, Jr.** – Fiscal Oversight Task Force Co-Chair, LSC Finance Committee Chair, and Board member

**Victor B. Maddox** – Fiscal Oversight Task Force Co-Chair, LSC Audit Committee Chair, and Board member

**David H. Hoffman** – Task Force member, Former Inspector General for the City of Chicago

**Nikki L. Tinsley** – Task Force member, Former Inspector General for the Environmental Protection Agency

## Appendix C – Documents Reviewed

We reviewed the following documentation:

### Task Force Background Material

- *Briefing Memo for Fiscal Oversight Task Force*, December 6, 2010 (prepared by LSC staff)
- LSC Organizational Chart
- LSC Board Resolution 2008-008 and 2008-008a *Roles and Responsibilities of LSC Offices Responsible for Grantee Oversight*, April 26, 2008

### Laws and Regulations

- Legal Services Corporation Act of 1974, as amended in 1977
- Inspector General Act of 1978, as amended in 1988
- Consolidated Appropriations Act of 2010
- House Report 104-537, 1996
- Conference Report 111-366, December 9, 2009

### LSC Policy and Procedure Documents

- *Audit Guide for Recipients and Auditors*, November 1996
  - *Compliance Supplement for Audits of LSC Recipients*, December 1998
- Grantee Audit Follow-up Process (A-50), October 27, 1997
- *Accounting Guide for LSC Recipients*, August 23, 2010
- Legal Services Corporation Performance Criteria
- LSC Code of Ethics and Conduct
- Office of Compliance and Enforcement Procedures Manual
- Office of Program Performance Office Procedures Manual

### Congressional Communications

- Letters from Sen. Charles Grassley to LSC, July 29 and October 5, 2010
- Response letters from LSC (Mr. John G. Levi and Mr. Victor M. Fortuno) to Sen. Charles Grassley, September 9 and October 14, 2010
- Press Release from Sen. Charles Grassley – *Latest Report of Legal Aid Spending on Club Dues and Meals, Leased Car Shows Continued Oversight Lapses*, October 22, 2010
- Letter from Sen. Barbara Mikulski to LSC, July 14, 2010
- Response from LSC (Mr. John G. Levi and Mr. Victor M. Fortuno) to Sen. Barbara Mikulski, July 16, 2010

### Audits and Reviews

- Office of Inspector General 06-02 – *Interim Report on Management Oversight of Grantees: Office of Compliance and Enforcement*, March 2006
- Office of Inspector General 07-02 – *Interim Report on Management Oversight of Grantees: Office of Program Performance*, April 2007
- Government Accountability Office GAO-07-993 – *Legal Services Corporation: Governance and Accountability Practices Need to Be Modernized and Strengthened*, August 15, 2007
- Government Accountability Office GAO-08-37 – *Legal Services Corporation: Improved Internal Controls Needed in Grants Management and Oversight*, December 27, 2007
  - LSC Response to GAO Audit Report
- Government Accountability Office GAO-10-540 – *Legal Services Corporation: Improvements Needed in Controls over Grant Awards and Grantee Program Effectiveness*, June 11, 2010
  - LSC Response to GAO Audit Report

### Press Releases for Recent Cases of Grantee Fraud

- *Former Finance Chief of Maryland Legal Aid Bureau Pleads Guilty to Stealing over \$1 Million*, September 2, 2010
- *Claysville (PA) Woman Pleads Admits [sic] Theft From Federally-funded Program*, March 1, 2011
- *Former Texas Rio Grande Legal Aid Paralegal Sentenced to Federal Prison for Fraud Scheme Involving Veteran Disability Claims*, July 16, 2010
- *Former Acting Executive Director of Nonprofit Organization in American Samoa Pleads Guilty to Theft of Federal Grant Funds*, March 11, 2010

### External Frameworks and Best Practices

- Domestic Working Group's Grant Accountability Project – *Guide to Opportunities for Improving Grant Accountability*
- Committee of Sponsoring Organizations of the Treadway Commission – *Internal Control – Integrated Framework*, 1992
  - *Guidance on Monitoring Internal Control Systems*, January 2009
- Government Accountability Office – *Standards for Internal Control in the Federal Government*, November 1999
- President's Council on Integrity and Efficiency / Executive Council on Integrity and Efficiency - *Quality Standards for Federal Offices of Inspector General*
- *Memorandum to the President's Management Council – Agency and OIG Working Relationships*, July 20, 2006
- Jackie F. Breland & Associates, P.A. – *An Internal Control Listing – For Nonprofit Organizations*

## Appendix D – Glossary of Terms

The following is a list of terms encountered in the course of this review. These terms have been defined to provide clarification and consistency to the meaning of the terms.

- **A-50 Follow-up Process** – This Office of Management and Budget (OMB) Circular provides the policies and procedures for use by executive agencies when considering reports issued by the Inspectors General (IGs), other executive branch audit organizations, the General Accountability Office (GAO), and non-Federal auditors where follow-up is necessary. According to the Office of Management and Budget, the responsibilities are as follows:
  - **Agency Head** – Agency heads are responsible for:
    - Designating a top management official to oversee audit follow-up, including resolution and corrective action.
    - Assuring that management officials throughout the agency understand the value of the audit process and are responsive to audit recommendations.
  - **Management Officials** – Agency management officials are responsible for receiving and analyzing audit reports, providing timely responses to the audit organization, and taking corrective action where appropriate. Where management officials disagree with an audit recommendation, the matter shall be resolved by the follow-up official.
  - **Audit Follow-up Official** – The audit follow-up official has personal responsibility for ensuring that (1) systems of audit follow-up, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) disagreements are resolved, (4) corrective actions are actually taken, and (5) required semi-annual reports are sent to the head of the agency.
  - **Inspectors General** – Inspectors General or other audit officials are responsible for (1) making independent audits and investigations of their agencies' programs, operations, activities, and functions; (2) overseeing the work of non-Federal auditors performed in connection with Federal programs; and (3) reviewing responses to audit reports and reporting significant disagreements to the audit follow-up official.
  - **Comptroller General** – The Comptroller General is the head of the GAO, a legislative branch agency responsible for auditing and evaluating programs, activities, and financial operations of the executive branch.  
(Source: OMB Circular A-50)
- **Collaboration** – The process of two or more parties working together to complete an individual task. (Source: Miriam-Webster Dictionary)
  - When pertaining to the management and IG relationship, collaboration would entail the two groups working together on a shared or common activity or under the direction of the other. This is disallowed by the Inspector General Act of 1978 because it would impair independence.
- **Communication** – A process by which information is exchanged between individuals through a common system of symbols, signs, or behavior. (Source: Miriam-Webster Dictionary)
  - Communication is one of the elements of the Inspector General's "3 Cs" concept for improving the working relationship with LSC management.
- **Compliance** – In general, compliance means conforming to a rule, such as a specification, policy, standard, or law. LSC grantees must comply with the terms and conditions of their grants, the LSC Act, and other Federal and state regulations.
- **Cooperation** – Association of persons for common benefit. (Source: Miriam-Webster Dictionary)
  - Cooperation is one of the elements of the Inspector General's "3 Cs" concept for improving the working relationship with LSC management.

- Coordination – The harmonious functioning of parts for effective results. (Source: Miriam-Webster Dictionary)
  - Coordination is one of the elements of the Inspector General’s “3 Cs” concept for improving the working relationship with LSC management.
- Fiscal Oversight – The process and systems in place to appropriately monitor and review the use of funds to mitigate the risk of misuse of grant monies, as described in OMB Circular A-110, Subpart C. Fiscal oversight may include many activities, including audits, information gathering and data analysis, or required reporting. (Source: OMB Circular A-110, Subpart C)
- Grantee – Qualified programs for providing legal assistance to eligible clients, to whom LSC makes grants to and contracts with— individuals, partnerships, firms, corporations, nonprofit organizations, and State and local governments as outlined in the LSC Act., i.e., recipient. (Source: LSC Act)
- Grants Management – The general business management practices that are common to the administration of all grants, such as financial accountability, reporting, equipment management, and retention of records. (Source: National Institutes of Health Glossary and Acronym List)
- Head of the Entity – The person(s) responsible for leading Executive Office agencies or other establishments of the U.S. government (such as designated Federal entities like LSC). Per the LSC Act, the Head of the Entity for LSC is the eleven-member Board of Directors. (Source: LSC Act, OMB)
- Independent Public Accountant (IPA) – Per the LSC Act and the 1996 appropriations law, grantees are required to receive an annual audit performed by an IPA according to the standards established in the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (commonly known as the “Yellow Book”) and guidance established by the OIG (as published in the *Audit Guide for Recipients and Auditors* and related Compliance Supplement). These audits are intended to determine whether:
  - The [grantee’s] financial statements are presented fairly, in all material respects, in conformity with the Generally Accepted Accounting Principles (GAAP), or other Comprehensive Basis of Accounting;
  - The [grantee’s] internal control structure provides reasonable assurance that the recipient is managing funds, regardless of source, in compliance with applicable Federal laws and regulations, and controls are in place to ensure compliance with the laws and regulations which could have a material impact on the financial statements; and
  - The recipient has complied with applicable provisions of Federal law, LSC regulations, and grant agreements, regardless of source of funds, which may have a direct and material effect on its financial statement amounts and on the LSC program. (Source: LSC Act, 1996 Appropriations Act, *LSC Audit Guide for Recipients and Auditors*)
- Inspector General Independence – Though the IG has a reporting relationship to the head of the entity, the IG maintains full control over decisions affecting the work done by the office. According to the Inspector General Act of 1978 (as amended in 1988), “[t]he head of the designated Federal entity shall not prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena during the course of an audit or investigation.” However, the IG should work cooperatively with management toward a common goal of improving effectiveness of agency operations, and share information when possible toward that end. (Source: Inspector General Act of 1978)



- Internal Controls – The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as: “A process, affected by an entity’s Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories.
  1. Effectiveness and efficiency of operations.
  2. Reliability of financial reporting.
  3. Compliance with applicable laws and regulations.

In addition to these goals, COSO has identified five interrelated aspects of internal control:

1. Control Environment – This includes the integrity, ethical values, and competence of an organization’s people.
2. Risk Assessment – see “*Risk Assessment*”
3. Control Activities – The processes and policies that organizations use to accomplish various operational, financial, and compliance objectives.
4. Information and Communication – The methods for identifying, capturing, and communicating pertinent information in a time frame that enables people to carry out their responsibilities.
5. Monitoring – The supervision of employees responsible for internal controls to ensure that the controls are being implemented properly.

(Source: COSO *Internal Control – Integrated Framework*)

LSC’s *Audit Guide for Recipients and Auditors* further defines the categories of internal controls that the IPAs are responsible for reviewing as:

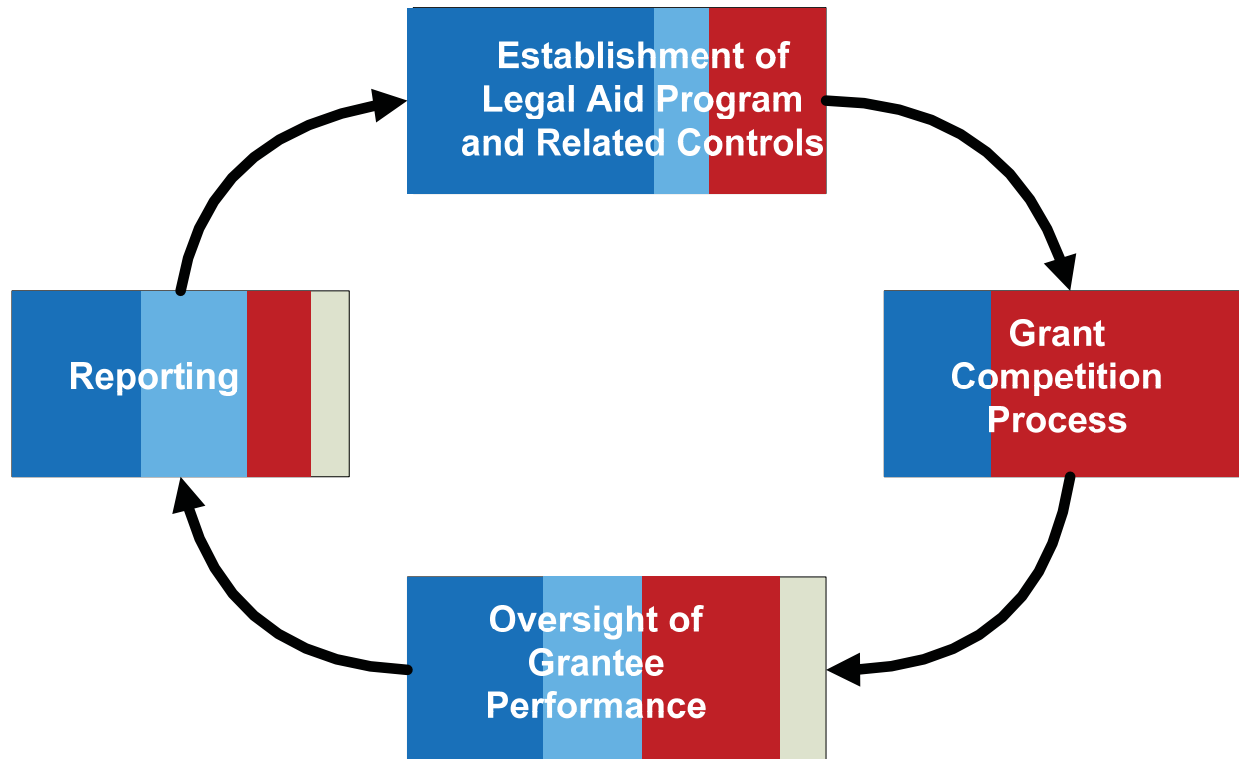
- Reliability of financial reporting,
  - Compliance with laws and regulations that have a direct and material effect on the program and any other laws so identified in the Compliance Supplement, and
  - Safeguarding of assets against unauthorized use or disposition.
- (Source: LSC’s *Audit Guide for Recipients and Auditors*)

- Management Responsibility – Management is responsible for establishing and maintaining internal control to achieve objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. (Source: OMB Circular A-123)
  - The LSC Act outlines management’s responsibility for both LSC and grantees.
- Office of Management and Budget Circulars – Directives issued by the Executive Office of the President to exercise managerial and policy direction and guidance over Federal agencies. The Circulars provide policy guidance or processes over a broad range of subjects from instructions on financial management and control systems to auditing of and cost principles for state and local governments and not-for-profit organizations receiving Federal awards. Circulars only contain information that is expected to have a continuing effect of two years or more. (Source: <http://www.whitehouse.gov/omb/>)
- Oversight Responsibility – LSC is responsible for providing guidance to the recipient organizations through regulations and other policy documents; providing advice and technical assistance on compliance and program quality issues; reviewing programs’ operations to assure compliance with governing laws and regulations; and requiring and reviewing financial audits to assure the reliability of financial statements and the existence of internal controls. (Source: LSC Act)

- Risk Assessment – The process of identifying all of the risks to and from an activity and assessing the potential impact and likelihood of each risk, then addressing the potential threats and possible opportunities that the organization faces. The risk assessment process is often used in conjunction with a system of internal controls to identify an organization’s highest priority risks and provide effective risk mitigation and focus based on this prioritization.  
(Source: COSO *Internal Control – Integrated Framework*)
  
- Work Plan –
  - *Annual Work Plan* - The typically annual plan for what areas and/or programs will be included in an office’s audit activities. While this plan sets the goals for what the office hopes to accomplish throughout the year, it should be continually reviewed and may be adjusted depending on a continuous risk assessment process.
  - *Site Review Work Plan* - The specific work steps and activities followed in completing an audit or site visit.

### Appendix E – Fiscal Oversight Roles throughout the Grantee Process

The following graphic shows the relationship of each organization (i.e., LSC, OIG, the IPAs, and the grantees) related to providing fiscal oversight throughout the process of establishing a grantee program. The table on the following page provides a narrative description of the activities and responsibilities included for each organization within each phase of the process.



Fiscal Oversight Responsibilities per Grantee Process Phase				
	Establishment of Legal Aid Program and Related Controls	Grant Competition Process	Oversight of Grantee Performance	Reporting
Grantee	<ul style="list-style-type: none"> <li>Establishes overall structure of internal controls, addressing:                             <ol style="list-style-type: none"> <li>Effectiveness and efficiency of operations;</li> <li>Reliability of financial reporting; and</li> <li>Compliance with applicable laws and regulations.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>Submits application for available grant funding, including narrative description of internal control and management environment.</li> </ul>	<ul style="list-style-type: none"> <li>Maintains overall responsibility for the use and stewardship of LSC-provided funds.</li> <li>Carries out purpose of LSC-funded program, providing civil legal aid to the nation's poor.</li> </ul>	<ul style="list-style-type: none"> <li>Provides Grant Activity Reports and Case Service Reports to LSC for review and assessment.</li> </ul>
IPA	<ul style="list-style-type: none"> <li>In select cases, the IPA may provide assistance and/or guidance to the grantee during the creation of internal controls and effective operating structure. This assistance would be optional and likely does not occur in most cases.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Performs the annual audit of the grantee, following the standards established in the Generally Accepted Government Auditing Standards (GAGAS, commonly known as the "Yellow Book") and guidance issued by the LSC OIG (found in the <i>LSC Audit Guide for Recipients and Auditors</i>).</li> </ul>	<ul style="list-style-type: none"> <li>Submits audited financial statements and management letter to LSC OIG for review.</li> <li>Submits additional reports as required by LSC (e.g., Compliance with laws and regulations, Internal Control related to financial statements and major programs).</li> </ul>
LSC	<ul style="list-style-type: none"> <li>Creates and distributes LSC Accounting Manual, which describes requirements for compliance with LSC regulations and standards of internal controls expected at grantee programs.</li> <li>Maintains and shares "best practice" guidance for grantees, including information for recipients on developing internal controls for not-for-profit organizations.</li> </ul>	<ul style="list-style-type: none"> <li>Administers and oversees the competitive grant process, including:                             <ol style="list-style-type: none"> <li>Reviewing applications for funding;</li> <li>Evaluating a program's ability to steward LSC funding (including conducting Capability Assessments for new programs); and</li> <li>Providing funding to eligible programs.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>Provides technical and administrative training and guidance to grantees as necessary.</li> <li>Provides prior approvals for certain grant-supported costs, including subcontracts and real property.</li> <li>Responds to and assesses complaints against grantees.</li> <li>Performs reviews of grantee performance, including assessing compliance with LSC regulations and standards of service as outlined in the LSC Act, LSC Performance Criteria, and grant terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>Reviews information submitted in the Grant Activity Reports and Case Service Reports.</li> <li>Performs follow-up on IPA audit issues identified in the annual audit, working with the OIG as part of the A-50 follow-up process.</li> <li>Reviews the audited financial statements submitted for all grantee programs.</li> <li>Issues reports related to program reviews.</li> <li>Reviews OIG audit reports.</li> </ul>
OIG	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>The OIG may choose to assess LSC operations related to the grant-making process.</li> </ul>	<ul style="list-style-type: none"> <li>Maintains the fraud and abuse hotline.</li> <li>Performs audits and investigations of grantees as it deems necessary based on risk assessment results, hotline calls, and management and/or Congressional requests.</li> </ul>	<ul style="list-style-type: none"> <li>Oversees the IPA audit process, including reviewing all IPA audit reports submitted and identifies and escalates any potential concerns or findings to LSC.</li> <li>Publishes reports on audits of grantee and LSC programs and operations.</li> </ul>

## Appendix F – Comparison of LSC Activities to Promising Practices for Grant Accountability

This table compares LSC’s current activities related to grants administration and oversight to the best practices framework identified by The Domestic Working Group’s Grant Accountability Project. Specifically, the following table contains the “List of Promising Practices” developed by the Working Group, based on best practices for managing grants from across more than 30 grant-making organizations, including 16 Federal agencies. The best practices were divided into five categories:

1. Internal Controls
2. Performance Measures
3. Pre-Award Process
4. Managing Performance
5. Assessing and Using Results

For each of the Promising Practices identified by the Working Group, we assessed to what extent LSC has related policies or practices in place. LSC’s status against the identified best practices is denoted by the symbol accompanying the Promising Practice, using the following definitions:

- ✓ LSC has processes or policies in place to meet the example of the Promising Practice;
- LSC has certain practices in place related to the Promising Practice, but gaps or inefficiencies exist; or
- ✗ LSC does not have procedures or policies in place related to the identified Promising Practice or those in place are not effectively meeting the example identified by the Working Group.

Area of Opportunity	Promising Practice
<b>Internal Controls</b>	Preparing policies and procedures before issuing grants <ul style="list-style-type: none"> <li>✓ Prepare department-wide policies and make available on the internet</li> <li>✓ Develop Statewide manual for managing Federal grants</li> <li>➤ Prepare policies for developing new grant programs</li> <li>➤ Prepare policies for reviewing and selecting grants</li> <li>➤ Prepare policies for competing grants based on merit</li> </ul>
	Consolidating information systems to assist in managing grants <ul style="list-style-type: none"> <li>✗ Develop centralized information system for multiple programs</li> <li>✗ Use information system to track grant status</li> <li>✓ Have grantees submit reports electronically</li> </ul>
	Providing grant management training to staff and grantees <ul style="list-style-type: none"> <li>✗ Develop a long-term strategic approach to training</li> <li>✗ Use a team approach to training</li> <li>✗ Provide training through Statewide workgroups</li> <li>➤ Provide specific training courses to grantees</li> </ul>
	Coordinating programs with similar goals and purposes <ul style="list-style-type: none"> <li>➤ Develop procedures to avoid duplication</li> <li>✗ Create one-stop centers to coordinate and centralize programs</li> <li>✗ Require applicants to disclose similar grants applied for and received</li> </ul>
<b>Performance Measures<sup>24</sup></b>	Linking activities with program goals <ul style="list-style-type: none"> <li>➤ Use logic models to link agency activities with results</li> <li>✗ Use both output and outcome measures to evaluate performance</li> <li>➤ Link measures to agency goals</li> </ul>

<sup>24</sup> Because the Task Force’s main focus was on fiscal oversight, a full review of the performance measures in place at LSC has not been performed. This evaluation is based on an analysis of LSC policies and procedures and discussions with LSC management.

