



Highlights of [GAO-08-37](#), a report to congressional requesters

Why GAO Did This Study

The Legal Services Corporation (LSC) was created as a private nonprofit to support legal assistance for low-income people to resolve their civil legal matters and relies heavily on federal appropriations. In 2006, LSC distributed most of its \$327 million in grants to support such assistance. Effective internal controls over grants and oversight of grantees are critical to LSC's mission. GAO was asked to determine whether LSC's internal controls over grants management and oversight processes provide reasonable assurance that grant funds are used for their intended purposes. GAO analyzed key records and interviewed agency officials to obtain an understanding of LSC's internal control framework, including the monitoring and oversight of grantees, and performed limited reviews of internal controls and compliance at 14 grantees.

What GAO Recommends

GAO makes recommendations to the LSC board and LSC management to improve internal control and oversight of grants by, among other things, (1) clarifying responsibilities for overseeing grantee internal controls and compliance among LSC units, (2) improving coordination and communication among LSC's oversight functions, and (3) using risk-based criteria to select grantees for internal control and compliance reviews. In comments on a draft of this report, LSC's board and management agreed with the recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-37](#). For more information, contact Jeanette M. Franzel, (202) 512-9471, franzelj@gao.gov.

LEGAL SERVICES CORPORATION

Improved Internal Controls Needed in Grants Management and Oversight

What GAO Found

GAO found weaknesses in LSC's internal controls over grants management and oversight of grantees that negatively affect LSC's ability to provide assurance that grant funds are being used for their intended purposes in compliance with applicable laws and regulations. Effective internal controls over grants and grantee oversight are critical to LSC as its very mission and operations rely extensively on grantees to provide legal services to people who otherwise could not afford to pay for adequate legal counsel. GAO also found poor fiscal practices and improper and potentially improper expenditures at grantees it visited.

Weaknesses in LSC's control environment include the lack of clear definition in the responsibilities of two of the three organizational units that oversee the work of grantees. GAO also found that communication between oversight units and coordination of grantee site visits is not sufficient to prevent gaps or duplication of effort, or both. The timing and scope of site visits is not based on a systematic analysis of the risk of noncompliance or financial control weakness across LSC's 138 grantees, so LSC cannot determine whether its resources are being used effectively and efficiently to mitigate risk among its grantees.

LSC control activities performed in the monitoring of grantee internal control were not sufficient in scope to achieve effective oversight, and GAO noted implementation weaknesses. For example, in the site visits GAO observed, staff did not follow up on questionable transactions and relied heavily on information obtained through interviews. Feedback to grantees was often delayed, preventing grantees from correcting deficiencies in a timely manner. As of September 2007, LSC had not yet issued reports to grantee management for about 19 percent (10 out of 53) of the 2006 site visits.

LSC grantee reviews missed potential control deficiencies at grantees that could have been detected with more effective oversight as evidenced by weaknesses GAO found at 9 of the 14 grantee sites it visited. While control deficiencies at the grantees were the immediate cause of the problems GAO found, weaknesses in LSC's controls over its oversight of grantees did not assure effective monitoring of grantee controls and compliance. Among the questionable expenditures GAO found were grantee use of funds for expenditures with insufficient supporting documentation, unusual contractor arrangements, alcohol purchases, employee interest-free loans, lobbying fees, late fees, and earnest money.