



November 30, 2007

Ms. Jeanette M. Franzel
Director, Financial Management and Assurance
U.S. Government Accountability Office
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Washington, DC 20548

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Dear Ms. Franzel:

Thank you for the opportunity to provide written comments on the Government Accountability Office (GAO) draft report entitled *Legal Services Corporation – Improved Internal Controls Needed in Grants Management and Oversight*. This is Management's response to your draft report. The Board of Directors is responding separately.

We accept the four recommendations and we are fully committed to making the improvements noted.

Recommendation: *GAO recommends that LSC management perform follow-up on each of the improper or potentially improper uses of grant funds identified in this report.*

LSC had already begun investigating one grantee cited by GAO prior to receiving the draft report. We have followed up on the other issues identified by GAO by referring the identified grantees and the related allegations to the Office of Inspector General (OIG). The OIG has accepted Management's referral of these matters and has indicated that they will conduct internal controls reviews at the grantees identified.

Recommendation: *GAO recommends that LSC management develop and implement policies and procedures for information sharing among the OIG, OCE, and Office of Program Performance (OPP) and coordination of OCE and OPP site visits.*

LSC will review existing policies and procedures and establish additional policies and procedures, as necessary, to address information sharing between OCE and OPP. We will ensure that all current and new procedures will be in writing and that staff will be fully informed of their responsibilities to conform to these policies and procedures.

LSC maintains substantial coordination of work efforts between OPP and OCE. We will assess our current practices regarding site visits to grantees and, where needed, will create additional avenues of coordination. We will put in writing the full range of coordination activities and procedures, including those we have been using as well as any new procedures, to ensure that information concerning grantee visits is more easily shared among staff in the two offices.

With regard to information sharing between the OIG and LSC program offices, we will consult with the OIG and insure that appropriate policies and procedures are in place.

Recommendation: *GAO recommends that LSC management develop and implement an approach for selecting grantees for internal control and compliance reviews that is founded on a risk-based criteria, and uses information and results from oversight and audit activities, and is consistently applied.*

LSC will assess the risk-based criteria that we currently apply when selecting grantees for program visits, add appropriate criteria as necessary, and document the process. We will continue to work with the OIG to make improvements in the system used to refer audit findings to ensure that all appropriate audit findings are being referred to Management for follow up.

Recommendation: *GAO recommends that LSC management develop and implement procedures to improve the effectiveness of the current LSC fiscal compliance reviews by revising its current guidelines.*

LSC will document in its written guidance for the fiscal component of OCE's regulatory compliance reviews the required links to OIG and IPA audit findings. We will provide guidance for following up on grantee interviews. We will work with the LSC Board of Directors and the OIG to develop and implement policies that clearly delineate organizational roles and responsibilities and appropriate fiscal and internal controls review procedures for grantee oversight and monitoring.

In addition to accepting your recommendations, we recommend that the following clarifications be made to your draft report to insure its overall accuracy.

First, the draft report does not sufficiently address the fact that in 1996 Congress mandated that the LSC OIG have oversight responsibility for all audit work performed by independent public accountants (IPAs) and the report should include a fuller discussion of the role of IPAs in the financial oversight of grantees. Management understood that as a result of the congressional action, the OIG would be responsible for financial audits of grantees, including internal controls reviews, and that LSC management would be responsible for regulatory compliance reviews with a limited fiscal component. Since that time, LSC management has looked to the OIG and the IPA audit process to provide the primary financial oversight of grantees. The LSC Board, the OIG, and LSC Management have all expressed

concerns about the need for clarification of roles with respect to financial oversight responsibilities for LSC grantees. We will work together to review how LSC should improve our overall financial oversight.

Second, the draft report supports its conclusion about limited coordination of the work of OCE and OPP with an isolated example from one grantee visit and fails to note the range of communication and coordination that actually exists between these offices. LSC management has made it a priority and has worked hard during the past few years to assure effective communication and coordination between OCE and OPP. The directors of these two offices as well as their respective deputy directors are in constant communication with each other. Staff from each office routinely seek and provide input to each other regarding upcoming grantee visits and other programmatic projects. All reports from each office, in draft and final form, are shared with staff of both offices. A written summary of the preliminary findings issued at each exit conference is shared with staff of both offices. The monthly written reports prepared by OCE regarding current OCE projects are shared between the directors, deputy directors and staff of both offices. Decisions on which grantees will receive oversight visits are the result of both offices coming together to discuss application of a variety of risk-based criteria.

Finally, despite the finding in the draft report that LSC does not employ a structured or systematic approach for assessing the risk of noncompliance or financial control weaknesses across its 138 grantees, the draft report refers to the following factors considered by OCE in selecting grantees for on-site reviews: complaints of noncompliance, referrals from the OIG, discrepancies in reporting case closures, and the time that has passed since the last visit. All of these are risk-based criteria. In addition, included in the OCE risk-based factors are the results of grantee self-inspections and potential compliance issues identified in OPP program visits and other discussions. While we can and will expand our criteria and document their use, the draft report fails to adequately credit the risk-based criteria currently in use by LSC.

Thank you for the opportunity to comment upon the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Helaine Barnett", with a stylized flourish at the end.

Helaine M. Barnett
President