



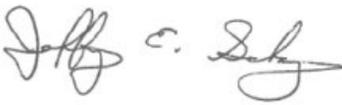
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MEMORANDUM

TO: Ronald S. Flagg
President, Legal Services Corporation

FROM: Jeffrey E. Schanz
Inspector General 

DATE: March 2, 2021

SUBJECT: Legal Services Corporation Office of Inspector General's White Paper on Challenges Facing the Legal Services Corporation in Monitoring the Covid-19 Response Grant

Enclosed is the Legal Services Corporation (LSC) Office of Inspector General's (OIG) White Paper on Challenges Facing the Legal Services Corporation in Monitoring the Covid-19 Response Grant. The OIG releases this White Paper to support LSC's efforts to help ensure that CARES Act funds achieve their vital purpose in serving the legal needs of low-income Americans amidst the pandemic.

If you have any questions, please contact Roxanne Caruso, Assistant Inspector General for Audit at (202) 295-1582.

cc: Lynn Jennings
Vice President for Grants Management

LEGAL SERVICES CORPORATION

OFFICE OF INSPECTOR GENERAL

**CHALLENGES FACING THE LEGAL
SERVICES CORPORATION IN MONITORING
THE COVID-19 RESPONSE GRANT**

WHITE PAPER



This is an Office of Inspector General White Paper. It is made available to your office and the general public for review.

March 2021

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INTRODUCTION

The Legal Services Corporation (LSC) is the single largest funder of civil legal aid for low-income Americans in the United States. LSC's 132 grantees provide assistance for a wide variety of civil legal issues affecting the poor in every state in the USA, as well as in US territories. The majority of cases handled by LSC grantees focus on family law, domestic violence matters, and housing problems, such as evictions and foreclosures. In 2019, LSC-funded programs closed nearly 746,000 civil legal cases nationwide.¹ However, demand for legal aid far outstrips the resources available. According to a 2017 LSC report, of the estimated 1.7 million civil legal problems for which low-income Americans sought LSC-funded legal aid, between 62 percent and 72 percent received inadequate or no legal assistance due to a lack of sufficient resources.²

The outbreak of coronavirus disease 2019 (COVID-19) and the concomitant economic hardships have increased the need for civil legal services, making LSC's mission and services more vitally important than before. As the COVID-19 pandemic has swept across the United States experts predict that court systems will see an overwhelming number of eviction cases. In 2020, Congress appropriated \$440 million for LSC. However, LSC has calculated it would cost approximately \$2.5 billion for its grantees to meet the legal needs of low-income Americans at risk of eviction.³

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The Act provided \$50 million to be distributed to LSC's grantees to assist low-income Americans facing evictions, job losses and other civil legal challenges associated with the pandemic. LSC focused on getting the funds promptly to where they could be put to work, successfully awarding virtually all the funding to grantees in less than 30 days.

The Office of Inspector General (OIG) is issuing this white paper to support LSC's efforts to help ensure that funds achieve their vital purpose in serving the legal needs of low-income Americans. The objective is to provide LSC OIG's perspective on the potential challenges and risks faced by LSC, LSC grantees, and other applicable officials. The OIG hopes this information will be helpful in assisting LSC Management in the oversight of the CARES Act funds and in how to best address these challenges in the midst of the pandemic.

In preparing this report, we reviewed current [LSC Grant Terms and Conditions](#) and [LSC CARES Act Reporting Requirements](#), the Pandemic Response Accountability Committee (PRAC) report [Top Challenges Facing Federal Agencies: Covid-19 Emergency Relief and Response Efforts](#), the LSC OIG report on [Top LSC Challenges in Handling Pandemic](#)

¹ [LSC By the Numbers - 2019](#)

² [LSC Justice Gap Report](#)

³ [LSC Analysis of Cost for Grantees to Address COVID-19 Related Eviction Surge](#)

[Related Responsibilities](#), LSC OIG [Fraud Alerts and Memorandums such as *The Fraud Corner*](#) articles and LSC OIG [Compendium Reports](#).

We identified challenges that LSC should consider as it implements and oversees the CARES Act, including issues related to grantee oversight and monitoring, accurate information reporting, procurement management, contracting, and management of information technology.

BACKGROUND

The CARES Act⁴ was signed into law on March 27, 2020, to stabilize households and businesses affected by the COVID-19 outbreak. LSC, whose mission is to promote equal access to justice and to provide high quality civil legal assistance to low-income persons, received \$50 million of the \$2.2 trillion CARES Act stimulus package. The funding was distributed to LSC's 132 grantees to assist low-income Americans facing job losses, evictions, and other civil legal challenges associated with the pandemic. Of the \$50 million appropriated to LSC, \$2.4 million was distributed through Telework Capacity Building Grants, designed to help grantees transition, or expand their capability to operate remotely. LSC reserved \$500,000 for LSC management and oversight. The remaining \$47.1 million was distributed countrywide with an emphasis on regions hardest hit by COVID-19.

Federal agencies face a number of challenges in their efforts to effectively manage the disbursement of relief funds, in part due to the need to distribute the funds quickly, which in turn can increase the risk of fraud and misuse of the funds. LSC is subject to the same CARES Act requirements as federal agencies. There are no time limits for the use of funds and there are minimal requirements on the use of funds.

CHALLENGES

After receipt of the CARES Act appropriation on March 27, 2020, LSC awarded and distributed 99 percent of the funds to its grantees by April 20, 2020. LSC utilized a data-based formula approach in administering the funding. This formula was based on poverty population and unemployment insurance filings over a four-week period. No grantee received less than \$25,000 and the maximum single award was \$1,888,192.

LSC utilizes Grant Terms and Conditions and a grantee self-reporting approach to monitor all grantees spending of the funds. Additionally, grantees that received more than \$150,000 in CARES Act funding are required to submit quarterly reports to the Pandemic Response Accountability Committee (PRAC) on the use of the funds. LSC provides these reports, collected from the grantees, to the PRAC.

⁴ [Coronavirus Aid, Relief and Economic Security Act. 15 USC 9001](#)

Normal LSC restrictions apply to the CARES Act funds that the grantees receive, however, the stipulations on their use are broad. LSC encourages grantees to use the funding expeditiously to meet the increased need of civil legal assistance associated with the COVID-19 pandemic. Due to the nature and need for the funds to be used quickly, risks arise that could lead to the inappropriate disbursements of funds. Also, due to social distancing restrictions and the rapid transition to remote work at many of the grantees, there are increased risks inherent in the greatly expanded use of information technology with a dispersed, off-site workforce.

Below, we have identified three key challenges that we believe LSC and its grantees face related to the COVID-19 pandemic and the receipt and disbursement of CARES Act Funds.

Challenges:

- (1) Grantee Oversight and Monitoring
- (2) Procurement Management
- (3) Information Technology Management

GRANTEE OVERSIGHT AND MONITORING

Grantees use GrantEase (LSC's grant management system) in conjunction with their case management systems, to track COVID-19 related cases. LSC recommended that grantees implement a COVID-19 funding code in their case management systems and a fund accounting general ledger designed to track personnel costs and other related expenditures and report these expenditures to LSC. However, LSC should also take steps to ensure the accuracy of the reported information. Effective grant monitoring requires timely receipt of reports and accurate financial records of grant programs. In previous years, OIGs of federal agencies have reported that both of these elements can be significant challenges⁵. While onsite and remote oversight have generally been used to conduct grant monitoring, the sudden switch to exclusively remote oversight may impact access to required staff and records.

The quick turnaround time in distribution and disbursement of funds, necessary to respond to the emergency, may limit the amount of time agencies and grantees have to establish and ensure a robust structure of internal controls.

Additionally, grantees may not have ample opportunity to establish a strong system to monitor and report on CARES Act activities. Good internal controls can improve the reliability of grantee financial information and can be essential to ensuring the integrity of fund expenditures.

⁵ Source: The Pandemic Response Accountability Committee (PRAC) report [Top Challenges Facing Federal Agencies: Covid-19 Emergency Relief and Response Efforts](#)

These risks can be mitigated by:

- Performing detailed and thorough reviews of the reports submitted by grantees through GrantEase to ensure accuracy.
- Performing an internal review of grantee data portal capabilities and ensuring the grantees have established appropriate levels of internal controls, including those with respect to reporting.

PROCUREMENT MANAGEMENT

Grantees could potentially use funding for cases and disbursements that are not allowable or not in accordance with CARES Act requirements due to the special circumstance of the pandemic: they are contending with the greatly increased use of telework, widely dispersed workforces, and expedited processes in spending funds to address urgent needs. Contracting and disbursements are key areas where improper payments can occur. Improper payments are those that should not be made or were not made in accordance with applicable statutory, contractual, administrative, or other legal requirements, such as payments to ineligible recipients, duplicate payments, or payments not supported by required documentation.⁶

In order to expeditiously assist those in need in the utilization of CARES Act funding, LSC grantees are exempt from the requirement of 45 CFR § 1630.6 and, therefore, grantees do not have to obtain prior LSC approval before entering into contractual agreements of \$25,000 or more. However, this expedited process may increase the risk that grantees enter into contracts with potential conflicts of interest, that established procurement policies and procedures are not properly adhered to, or that grantees enter into business arrangements that could include price gouging, price-fixing, or bid-rigging schemes.

Furthermore, the OIG has found in recent internal control reviews of LSC grantees, and summarized in our compendium reports, that some LSC grantees have made improper payments resulting from a lack of review and approvals over purchases, lack of supporting documentation for disbursements, and/or lack of contract-related documentation. The risk of these instances occurring is potentially heightened during the pandemic due to remote work and the attendant difficulty in accessing people and systems. We have also found instances of grantees not adhering to LSC criteria in their procurement processes and of information systems controls not being configured appropriately to detect duplicate payments.

⁶ Source: The Pandemic Response Accountability Committee (PRAC) report [Top Challenges Facing Federal Agencies: Covid-19 Emergency Relief and Response Efforts](#)

Grantees may also increase the use of Automated Clearing House (ACH) transactions due to the COVID-19 pandemic. While these transactions may be more convenient than paper checks, the risk of ACH fraud is increased through IT-related fraud vulnerabilities⁷.

These risks can be mitigated by:

- Communicating to grantees the importance of following an effective procurement policy in ensuring competition between vendors, effectively negotiating contract terms, documenting purchase decisions, and ensuring internal controls are in place to reduce abusive practices by vendors.
- Communicating to grantees the need to practice sound procurement practices and to be mindful of vendors capitalizing on the crisis to reap illicit profits. While circumstances may warrant the necessity of sole-sourced procurements, it is important that grantees follow established sole-source justification and documentation procedures to protect against fraud and abuse.
- Providing direct oversight with use of surveys and reviewing sample records via compliance checking system.
- Ensuring grantees have incorporated appropriate controls and safeguards to protect against improper payments and fraud, including one-time authorizations, two-part identity verifications, automated notifications, second level approvals, and the use of an authorized user list. Further controls for consideration include ACH filters and online banking features including online credit card reviews, as well as blocks on certain transactions.⁸

INFORMATION TECHNOLOGY MANAGEMENT

The COVID-19 related transition to fully remote work at many LSC grantees, as well as with LSC Management, has created challenges in safeguarding IT systems, including increasing risks to financial information and sensitive data.

These circumstances present a heightened risk of malicious internet attacks, including ransomware attacks that have at times exploited weaknesses in grantees' IT infrastructure to disrupt access to data, including financial records and sensitive client information. These attacks involve potentially disabling servers and blocking access to IT systems pending payment of a ransom.

There is also an increased risk of Business Email Compromise schemes. These schemes target electronic payments and are usually carried out by spoofing email accounts and

⁷ See section on Information Technology Management

⁸ Sources: LSC OIG *The Fraud Corner* Articles

https://oig.lsc.gov/images/pdfs/invest_results/Fraud_Corner_Email_Schemes_FINAL.pdf and https://oig.lsc.gov/images/pdfs/invest_results/Fraud_Corner_ACH_COVID-19_Final.pdf

using accounts with subtle differences from the legitimate domains. The perpetrator will then use this spoofed email account to manipulate custodians of funds to release money into fraudulent accounts.

Additional IT-related vulnerabilities that may be associated with the move to remote work are identified in the Federal Bureau of Investigation's Alert Number I-040120-PSA. These include malware distribution, exploitation of remote working tools software, and fraudulent supply chains.

These risks can be mitigated by⁹:

- Training staff continuously on cybersecurity best practices.
- Reviewing the effectiveness of grantee information technology controls.
- Limiting software downloads to legitimate websites that have been manually typed into the browser.
- Operating up to date network firewalls and virus protection systems.
- Monitoring network traffic for suspicious activity and block websites and domains known for illegitimate behavior.
- Keeping software up to date on all devices to avoid exploitation and vulnerabilities.
- Backing up critical data so that it can be rolled out in case of an incident.
- Avoiding changing banking or payment information without first verifying the legitimacy of the request. This can include independently contacting the requestor through verified contact information.
- Verifying the identity of any contracted vendor through a dual-factor system.
- Update grant requirements to ensure grantees adequately protect fiscal and client data by having a good IT security program.

CONCLUSION

LSC has announced its implementation of monitoring processes and techniques over the CARES Act funds. LSC should continue monitoring reports within the GrantEase system, employing logic-checking systems to identify duplicate or illogical submissions before accepting the data, and communicating with grantee management on requirements,

⁹ See also LSC OIG [Fraud Alert 20-0113-A-FA](#) for a list of additional risk mitigation techniques.

including providing information and assistance as the grantees continue to expend the CARES Act funds.

In addition, LSC should be mindful of the challenges presented above. The measures suggested paired with the steps LSC are already taking, should help mitigate these risks. LSC Management should remain alert and consider taking actions related to the identified challenges to reduce vulnerabilities to fraud, waste, abuse, noncompliance, and other issues that could impact grantees abilities to achieve intended results.

The OIG is committed to assisting LSC and its grantees in responding to the challenges of the pandemic and helping to ensure the proper and effective use of CARES Act funds for the benefit of the client community.

APPENDIX I- RESOURCES

Below is a list of resources sourced throughout the report and additional resources. You may access the information by clicking the links below.

[COVID-19 Response Grant Special Grant Terms and Conditions](#)

[LSC CARES Act Reporting Requirements](#)

[PRAC report: Top Challenges Facing Federal Agencies: Covid-19 Emergency Relief and Response Efforts](#)

[Top LSC Challenges in Handling Pandemic Related Responsibilities](#)

[Fraud Alert 20-0113-A-FA](#)

[The Fraud Corner: COVID-19 Purchasing Scams](#)

[The Fraud Corner: ACH Transactions](#)

[Fraud Corner: Email Scams Targeting LSC and LSC Grantees](#)

[Compendium of Internal Control Audit Findings & Recommendations from Reports Issued October 1, 2017 through September 30, 2019](#)

[Federal Bureau of Investigations Alert Number I-040120-PSA](#)