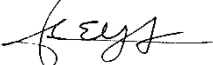




MANAGEMENT ADVISORY

TO: Ronald S. Flagg, President, Legal Services Corporation
FROM: Thomas E. Yatsco, Inspector General 
SUBJECT: Enhancing Monitoring of Student Loan Assistance Programs
DATE: January 29, 2024

The Legal Services Corporation (LSC) Office of Inspector General (OIG) has identified that monitoring of student loan assistance programs may present an emerging risk. Although our work to date has involved a few recently completed and ongoing oversight engagements,¹ based on our professional judgment and experience we believe that LSC could consider taking steps to proactively enhance monitoring of student loan assistance funds.

As you know, LSC funds can be used to assist attorneys in paying down their student loan debts. We recognize that loan repayment assistance can be an important tool for attracting and retaining high-caliber attorneys who are committed to serving those most in need of civil legal assistance. This memorandum describes a recently completed investigation and an audit that identified issues related to loan payments using LSC funds. We also identify prudent and practical steps that LSC could adopt to enhance monitoring of LSC-funded student loan assistance, as preventative measures.

BACKGROUND ON LSC-FUNDED STUDENT LOAN ASSISTANCE

LSC's Loan Repayment Assistance Program

LSC makes forgivable loans under the Herbert S. Garten Loan Repayment Assistance Program (LRAP), up to \$10,000 annually, to attorneys employed full-time by LSC-funded legal services programs (LSC grantees) that help them repay law school debt and interest. Attorneys selected for the program may receive forgivable loans for up to three years depending on eligibility and available funding. The LRAP program was funded at \$2 million for Fiscal Year 2023. If the attorney stays employed in good standing through the required 12-month cycle and meets other conditions, LSC forgives the loan. If the attorney stops working at that grantee during

¹ OIG recently initiated a two-phase proactive investigative project to assess whether recently identified noncompliance and fraud issues might reflect more systemic problems among LSC grantees.

the required 12 months, the entire loan must be paid back. Upon completing the eligibility term, the participating attorney must certify that LRAP funds were used to pay school debt.²

Grantee Administered Loan Assistance Programs

LSC grantees may create their own student loan assistance programs funded through LSC Basic Field Grants, which fund a broad range of civil legal aid services. Student loan assistance programs are provided to employees as a benefit and each grantee has its own policies and procedures related to program administration. For example, one program reimbursed employees for loan student payments up to 60 percent of their monthly loan payment obligation with a maximum reimbursement of \$350 per month. It is our understanding that LSC does not currently track the amount of its funds spent on grantee administered loan assistance programs.

National Pause on Federal Student Loans

Due to the national pandemic-related pause on federal student loans beginning in March 2020, borrowers were not required to restart payments on their loans until October 2023. However, borrowers could continue payments voluntarily.³ Borrowers had two options: (1) stop payment or (2) continue their monthly payments. An employee who continued to receive loan assistance from their employer without making payments may have committed fraud. For these reasons, it is critical that employees submitted documentation to support any payments they have received—and that the documentation was reviewed.

LESSONS LEARNED FROM A RECENT OIG INVESTIGATION AND AUDIT

During recent investigative and audit engagements, OIG identified gaps in controls over loan assistance payments, as described below.

Issues Identified During an OIG Investigation of a Grantee's Loan Assistance Plan

- As a result of an OIG investigation, we determined that the grantee reimbursed employees for student loan payments without sufficient supporting documentation to demonstrate that student loan payments had actually been made by the employees. In one case, an employee was reimbursed a total of \$29,700 without any supporting documentation. The OIG is in the process of reviewing additional employee reimbursements using LSC funds.

² A full program description and eligible uses can be found at <https://www.lsc.gov/grants/loan-repayment-assistance-program/lrap-program-description>.

³ The pause of student loan payments only applied to federal student loans. Borrowers of private loans were not relieved of their obligation to continue their monthly payments.

- The OIG has an open investigation related to employee reimbursements, which could result in a violation of grantee policies and unallowable expenses.

Issues Identified During an OIG Audit of a Grantee's Student Loan Assistance Program

- As a result of an OIG audit, we identified payment noncompliance issues related to four employees at a grantee. We found inadequate documentation and approvals, reimbursement overpayments, and ineligible reimbursements.
- Not all reimbursements followed grantee policy and resulted in overpayments to some employees.
- One non-practicing attorney employee received reimbursements but was identified as ineligible to receive the reimbursement under the grantee's policy.
- The grantee's general ledger and internal tracking documentation for law school loan reimbursements were not reconciled. Therefore, OIG determined that the general ledger was not sufficiently reliable to ensure that reimbursements were accounted for and recorded accurately.

OIG SUGGESTIONS TO ENHANCE LSC'S MONITORING OF STUDENT LOAN ASSISTANCE

In our view, the experience of the pandemic presents an opportunity to take a fresh look at monitoring of student loan assistance and consider enhancing monitoring practices. As a result, we are providing LSC with considerations related to (1) monitoring practices of federal funds used for grantee administered student loan repayment assistance programs and (2) administration of LRAP.

Prior OIG Monitoring Suggestions and LSC's Implementation of Related New Requirements

On September 5, 2023, OIG issued an initial memorandum to LSC regarding LRAP payment verification. We expressed concerns about the lack of verification that is required before LRAP recipients make loan payments to their loan servicer. OIG stated that LSC ran the risk of funds being used for ineligible purposes due to lack of required verification or documentation.

LSC acknowledged the need for stronger internal controls. LSC communicated that starting with the 2023 LRAP funding year, it will create a new functionality in GrantEase, LSC's unified grants management system. This will require recipients to upload proof of loan payment(s) and certify that funds were used appropriately. According to LSC, the documentation will be reviewed prior to LSC issuing a satisfaction and release letter to LRAP recipients. We will continue to oversee LSC's implementation of these new measures.

Additional OIG Suggestions to Enhance LSC's Monitoring of Grantees' Loan Assistance Programs and Administration of LRAP

To assist LSC in staying ahead of the curve in safeguarding federal funds and mitigating potential risks, we suggest that LSC consider implementing additional prudent and practical measures to enhance monitoring of LSC funds used for loan assistance through Basic Field Grants and LRAP. These suggestions build upon the preliminary observations we previously communicated.

Suggestions related to LSC's monitoring of grantee administered student loan assistance programs using federal funds

LSC may consider:

- Including a question on the Basic Field Grants application asking if the grantee provides a student loan assistance program.
- Requiring grantees with a student loan assistance program to affirm if LSC funds are utilized to pay for any portion of the benefit.
- Determining the amount in LSC funds used annually by grantees to support student loan assistance program benefits, because LSC currently does not track the amounts grantees spend on loan assistance programs.
- After identifying the amount of LSC funds being used for loan assistance, determining and documenting the appropriate level of LSC monitoring that is necessary.
- Requiring the grantee to have a policy on fiscal oversight of the student loan assistance program, to include the requirement for eligible applicants to provide supporting documentation to show incurred expenses and payments made by the employee.
- If the grantee has a written policy, requiring them to provide their policy to LSC.

Suggestions related to LSC's LRAP administration

LSC may consider:

- Requiring applicants to disclose if they are receiving other student loan reimbursements from their LSC funded employer and indicate the monthly/yearly amount.
- Requiring LRAP and student loan assistance program applicants to certify in writing that they will use these funds for their intended purpose.
- Implementing a process for comparing LRAP recipients to known grantee student loan assistance program recipients to verify the total amounts of their monthly/yearly student loan payments. LSC or the grantee could consider determining the total actual payments made by the employee to alleviate the risk of duplicate benefits/reimbursements paid to employees for the same loan payments.

- Since the LRAP guidelines establish that the employee must reimburse the entire LRAP loan amount to LSC if they stop working at their employing LSC grantee organization during the annual LRAP cycle, establishing a methodology to determine if an LRAP recipient has left a grantee prior to the end of an award period and consider recoupment of these funds.

In conclusion, we are committed to helping LSC management anticipate potential risks such as these and identifying mitigation measures they could proactively implement to prevent improper payments or, at worst, cases of fraudulent use of resources. We will continue to focus on student loan assistance issues as we plan and execute our oversight work throughout 2024.

We will disseminate this memorandum to key stakeholders and post it to our website in five business days after issuance to LSC. If you have any questions or would like additional information, please contact Daniel O'Rourke, Assistant Inspector General for Investigations, LSC OIG, at (202) 441-9948, or by email at dorourke@oig.lsc.gov.

CC: Lynn Jennings, LSC Vice President for Grants Management