

OIG Investigative Trends: Key Fraud and Compliance Risks Facing LSC Grantees

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OFFICE OF INSPECTOR GENERAL
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LEGAL SERVICES CORPORATION

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Introduction

The Office of Inspector General (OIG) for the Legal Services Corporation (LSC) is issuing this report to inform grantees of fraud and compliance trends revealed by OIG investigations since 2022. Legal services organizations are operating with high demand for services but with lean budgets. As a result, you can ill afford to suffer financial losses from fraud which can lead to disruption of client services, reputational harm, or loss of funding streams.

In this Report, the OIG identified six areas that warrant focused attention to prevent fraud and compliance issues. For each area, we highlight relevant case examples as well as best practices you could adopt to mitigate fraud and compliance risks. We encourage you to self-evaluate your policies and procedures to determine whether or not you align with the best practices described in this report. The focus areas are:

- **Board of Directors Engagement.** The OIG has investigated cases where a contributing factor was a lack of Board of Directors (Board) engagement or inadequate Board oversight of management. The OIG has identified practices Boards can employ to help prevent fraud, waste, abuse, noncompliance, and mismanagement in LSC-funded programs.
- **Cyber Security Threats.** Cyber threats continue to be a primary risk targeting LSC grantees. Since 2022, more than fifty cyber-related incidents have been reported to our Hotline by LSC grantees. Many of these cyber incidents, especially email phishing scams and ransomware, resulted in financial loss, loss of data, or lost time serving clients. Yet, many of them are preventable if you implement appropriate safeguards.
- **Contracting and Procurement.** Investigations have found that grantees have suffered losses, or fallen victim to fraud, by not following their policies and/or LSC requirements related to contracting and procurement.
- **Student Loan Assistance Programs.** Recent investigative work has revealed that some grantees do not have controls in place to ensure they obtain documentation to support that their employees are making loan payments and are not using the assistance payments for personal gain. Inadequate controls have exposed some grantees to losses and present potential fraud and compliance risks for grantees that offer these types of assistance plans.
- **Outside Practice of Law and Outside Employment.** Investigations revealed that grantee attorneys with unapproved or non-compliant outside practice of law, and

grantee employees with conflicting outside employment, can lead to program losses, diversion of grantee clients for personal gain, and time and attendance issues.

- **Allowability of Costs Under the LSC Grant.** Investigations have found unallowable costs allocated to LSC grants. For example, some grantees have neglected to ensure proper documentation of expenditures and/or the legitimate business purpose of expenses, which can result in questioned costs, program losses, or other grant sanctions.

In this report, we also include links for additional guidance documents such as our [OIG Board Oversight Playbook](#), [OIG Fraud Advisories](#), and [LSC resources](#).

Reminder: Grantees Must Timely Notify OIG of Potential Fraud, Waste, or Abuse

We would like to remind you of required reporting to the OIG. LSC Grant Terms and Conditions require you to notify the [LSC OIG Hotline](#) *before* initiating any investigation into a matter, and within two business days of:

- discovering information indicating that you have been the victim of a loss as a result of any willful misrepresentation or theft, fraud, misappropriation, or embezzlement, involving property, client funds, LSC funds, and/or non-LSC funds used for the provision of legal assistance;
- reporting a crime to local, state, or federal law enforcement officials;
- discovering that you have been the likely victim of a data breach or any other cyber incident (please note – the OIG can assist with alerting the FBI's cyber-incident resources);
- discovering that you have been the victim of theft or employee misconduct involving cash, credit cards, check stock, program revenue, expense reimbursements, time submissions, passwords, or electronic access codes; or
- discovering that any of your key officials (including officers and directors) or employees are charged with fraud, misappropriation, embezzlement, theft, or any similar offense, are suspended or disciplined by a professional licensing organization, or have been found to have acted in violation of your conflict-of-interest policy.



Fraud Risks: Patterns, Cases, and Prevention Practices

Based on our recent investigative work, we identified the following trends and suggested focus areas. By adopting the best practices we describe, you could help mitigate the risk of fraud, waste, or abuse occurring in your program.

Board of Directors Engagement

According to the National Council of Nonprofits,¹ actively engaged Boards are essential to effective governance of civil legal assistance organizations. The OIG emphasizes the importance of Boards actively serving as oversight bodies — particularly oversight of Executive Directors (EDs) and Chief Executive Officers. The OIG issued a Playbook in March 2025 titled: [Safeguarding LSC Funds Through Effective Board of Directors Oversight](#), which highlights practices you can employ to help prevent fraud, waste, abuse, noncompliance, and mismanagement, as you execute your oversight responsibilities and serve as good stewards of public and donor funds.

Case Examples

- A retiring grantee ED created an administrative services company and convinced the grantee's Board to allow him to terminate the grantee's administrative staff and hire them as employees for his new company. The contract for these services included the same salary the ED earned from the grantee before retiring. No cost savings were derived by the grantee through this arrangement, and the Board approved the arrangement despite the ED's apparent conflict of interest.
- A grantee Board changed the program's policy regulating how much leave an employee is allowed to be paid upon departure from the organization. The Board altered the policy from allowing a maximum of 45 days to allowing a payout for more than 200 days. The policy change was made in anticipation of the retirement of the grantee's former Executive Director whose leave totaled at or around 200 days. The Board stated that policy change was meant to address the Executive Director's dedication and commitment to the program.

¹ See [Board Roles and Responsibilities / National Council of Nonprofits](#)

Best Practices Associated with Board Engagement

1. Make decisions in the best interest of your organization and ensure it has policies and controls in place to ensure compliance with applicable laws, regulations, and other requirements.
2. Engage in overseeing your organization's annual financial audit; ensure it starts and progresses in a timely manner; and ensure that management takes timely and effective actions to address any deficiencies identified in the audit report. To promote integrity, accountability, and transparency in the use of LSC funds, federal appropriations law requires all LSC grantees to undergo annual financial statement audits conducted by independent public accountant (IPA) firms. The audit process oversight also entails your hiring and evaluating the IPA's work.
3. Ensure that your organization has controls in place that provide reasonable assurance that management is following contracting and procurement policies.
4. Ensure your organization has a Board-approved conflicts of interest policy (for the Board and organization employees) that includes provisions to address nepotism.
5. Create an executive compensation policy, ensure its implementation, and establish a process for periodic Board review and benchmarking to similar organizations.
6. Have a documented process in place to review and approve your ED's expenses, reimbursements, and on a regular basis, but at least every quarter (as required by the LSC Financial Guide).

Cyber Security Threats

Currently, cybercrimes are the most likely way your program will be targeted or victimized by fraudsters. Grantees that have not yet adopted LSC requirements and best practices related to cybersecurity leave themselves vulnerable to a loss of funds and sensitive data, including personally identifiable information on you, your employees, and clients. The OIG has issued many Fraud Advisories on this topic since 2020, which describe specific risks and offer practical solutions that could help mitigate cyber risks. We encourage you to visit our [Cyber Security Resources webpage](#).

Cases Examples

- An LSC grantee was the victim of a Business Email Compromise (BEC) scheme when a bad actor gained access to a fiscal employee's e-mail account. The cybercriminals used the employee's email account to contact several grantors and request they change the grantee's Automatic Clearing House (ACH) direct deposit information to a fraudulent account. When the grantee became aware of the issue, they notified the grantors of the fraudulent email, but one grantor did not respond to the grantee's notification and switched the ACH payment. Over eight months, the fraudsters diverted more than \$100,000 in grant payments from the grantee.
- A foreign threat-actor compromised the network credentials of a grantee staff member to initiate a ransomware attack. The staff member had administrator rights on the grantee's network. The grantee had to shut down parts of their network for two weeks, which likely hindered client service, to evaluate the data breach. The threat-actor demanded a \$180,000 ransom payment, which was not paid.

For further information on Ransomware, please see our [Ransomware Threat Resource Advisory](#).

- A grantee staff attorney improperly downloaded PDF software onto their grantee-owned laptop. Malware was detected as being embedded in the downloaded file, which led to 1GB of grantee data and six client case files being compromised.

For further information regarding BEC schemes, please see our [BEC Scheme Advisory](#).

The OIG recently issued a Fraud Advisory: [10 Essential Safeguards that Deter Cyberattacks](#).

Prevention and Detection Best Practices Associated with Cyber Security Threats

1. Have policies and controls in place that require current updates or "patches" to all operating systems, software, and firmware on digital devices to protect them against remote desktop protocol (RDP) and software vulnerabilities. You should also consider a centralized patch management system.
2. Through training, ensure staff (especially fiscal staff) are aware of social engineering and artificial intelligence (AI) techniques used to deceive employees into disclosing sensitive business information.
3. Ensure your fiscal staff monitor accounts for unauthorized fund transfers.

4. Ensure your organization has carefully considered the LSC Technology Baselines and LSC Financial Guide requirements in setting up and running your organization's IT program, including budget, policies, practices, and IT security protocols.
5. Have a policy that requires strong passwords and use multi-factor authentication to gain access to IT systems.

Contracting and Procurement

It is important to ensure your organization's contracting and procurement policies and practices are rigorous and designed to avoid potential waste and fraud, prevent conflicts of interest, and promote best value for your organization in an environment of tight budgets. Strong contracting policies and practices will ensure all agreements with vendors are properly documented and free of conflicts of interest. LSC requirements regarding Procurement and Contracting are discussed in section 3.5 of the [LSC Financial Guide](#).

Case Examples

- To assist with a new ED's transition, the retiring ED made a proposal to the program's Board to hire him as an independent consultant after his retirement. The ED and Board agreed to a one-year contract for an amount more than the ED's previous base salary. The ED was not required to provide any supporting documentation for the monthly payments he received under the one-year contract; and the contract stipulated that he would be paid whether he provided services or not. As a result, we could not verify that work was performed to justify the contract.
- An OIG investigation found that a contractor hired by a grantee falsely claimed active membership in certain professional organizations; provided false information as to his employees and their respective professional experience; claimed fictitious prior governmental auditing experience; and provided an altered third-party peer review letter. As a result of the OIG investigation, the contractor pleaded guilty to mail fraud.

For further information, see LSC's guidance titled [Procurement Policy Drafting 101: Guidance for LSC Grantees](#), which lists many best practices for drafting or revising your procurement policies.

Prevention and Detection Best Practices Associated with Contracting and Procurement

1. Ensure your policy includes requirements to comply with LSC regulation [45 C.F.R. Part 1631 \(Purchasing and Property Management\)](#), including the LSC prior-approval requirement for expenditures over \$25,000 using LSC funds including the LSC prior-approval requirement for expenditures over \$25,000 using LSC funds.
2. For large purchases, employ an evaluation team to complete an assessment of proposals, pricing information, and references. An evaluation team ensures that proposals are evaluated objectively. Ideally, evaluation teams have 3 to 5 members and contain at least one subject-matter expert and one end-user of the product or the service being purchased.
3. Maintain documentation related to the evaluation of competitive bidding and contract approvals in a “contract file.” This documentation should be completed contemporaneously with the evaluation of a procurement, placed in a file, and be readily available for a third-party review.
4. If sole sourcing, establish grounds for non-competitive purchases. These grounds could include exigent circumstances or unique vendors. Maintain a written justification for sole-source purchases.
5. If you are made aware of a potential conflict, consider seeking an independent ethics opinion, or at the very least, discuss the issue with LSC representatives. As appropriate, require individuals to recuse themselves from a procurement process if a conflict appears to exist.
6. Ensure contracts or agreements with former EDs comply with LSC and organization contracting requirements, receive proper Board oversight throughout the contract’s term, and have mechanisms in place to ensure the contractor is conducting legitimate work and tracking time for review and approval.

Student Loan Repayment Programs

Grantees should administer and oversee student loan assistance programs, particularly those that use LSC funds, to ensure that an employee’s qualifying payments have been made to justify the employee’s receipt of assistance/reimbursement payments. We recognize that a loan assistance program can help attract and retain high-performing employees. However, such

programs must have robust safeguards in place to ensure accountability, integrity, and transparency in the use of LSC funds.

Case Examples

- An ED improperly received nearly \$30,000 in student loan reimbursement benefits as part of the grantee's student loan assistance plan. The ED was unable to provide supporting documentation to substantiate making these monthly student loan payments. Due to the investigation, the ED repaid the grantee and resigned instead of termination.
- Two grantee employees did not apply their LSC-administered Herbert Garten Loan Repayment Assistance Program (LRAP) payments to their loan obligations, resulting in LSC overpayments of over \$23,000. At the same grantee, the OIG identified approximately \$15,500 in LSC funds allocated to the program's own student loan repayment plan. The grantee failed to collect adequate supporting documentation for its own loan program from multiple employees. The documentation they collected did not demonstrate that the employees were making payments on their student loans.

The OIG recently issued a Fraud Advisory [How to Improve Oversight of Student Loan Assistance](#) which highlights practices you can employ to improve oversight of grantee student loan assistance payments.

Prevention and Detection Best Practices Associated with Student Loan Programs

1. Establish a policy that includes eligibility and other requirements for participation, required tenure at the grantee, and limitations on monthly/yearly assistance payment amounts.
2. Require employees requesting assistance to provide the grantee with documentation supporting that they have existing outstanding student loan debt.
3. Require plan participants to provide supporting documentation that evidence loan payments made by the employee.
4. If LSC funds are being used for assistance payments, ensure compliance with [45 C.F.R Part 1630 \(Cost Standards and Procedures\)](#), including that each cost is reasonable, necessary, and contemporaneously documented., and contemporaneously documented.

Outside Practice of Law and Outside Employment

Grantees should establish policies that prohibit and deter unauthorized outside practice of law and conflicting outside employment. Each year, the OIG Hotline receives multiple complaints related to outside practice of law and outside employment. These instances may result from employees not being informed of grantee policies and LSC requirements, employees taking advantage of hybrid and remote work arrangements, or a lack of supervisory oversight.

Case Examples

- A former Board member at a grantee became its new ED. The ED engaged in the outside practice of law (OPL). The ED admitted to the OPL and acknowledged awareness that his activity was not consistent with LSC regulation 45 CFR Part 1604 (OPL). The ED is no longer with the grantee.
- It was discovered that a full-time grantee paralegal was working simultaneously as a full-time paralegal for another local nonprofit during the same core business hours, receiving duplicate pay in violation of grantee policies and potentially committing time and attendance fraud. The paralegal worked in a hybrid work environment at the grantee, with little to no supervision.

For additional information regarding time and attendance fraud prevention, please see our Advisories [Prohibited Outside Practice of Law and Outside Employment Activities](#) and [Outside Employment During Remote Work](#) and LSC's [Program Letter 18-1 Outside Employment Policy Drafting Guidance](#).

Prevention and Detection Best Practices Associated with Outside Practice and Employment

1. Ensure that new full-time staff attorneys receive training on the restrictions of LSC regulation Part 1604 and any additional restrictions included in your OPL policy.
2. At least annually, remind all full-time attorneys of your OPL policy.
3. Require employees to disclose outside employment to ensure that the employment does not conflict with or impair the employee's work at your organization.
4. Ensure employees are aware that resources, such as your organization's name, time, or supplies, should not be used to support the outside practice of law or outside employment.

Proper Allocation of LSC Funds and Prevention of Unallowable Costs

LSC regulations require that all costs incurred with LSC funds are reasonable and necessary for the performance of the LSC grant ([45 C.F.R. Part 1630 - Cost Standards and Procedures](#)). In addition, Part 1630 requires grantees to maintain adequate and contemporaneous documentation in business records for costs allocated to the LSC grant. Failure to properly allocate and document costs charged to LSC grants, and ensure all expenditures have a legitimate business purpose, can result in questioned costs, program losses, and grant sanctions from LSC.

Case Examples

- A grantee ED hired a part-time Chief Financial Officer (CFO) and paid her the equivalent of a full-time salary. The CFO did not maintain sufficient time records to validate the hours that she worked. The case resulted in LSC Management questioning over \$165,000 in salary and benefits expenses paid to the CFO.
- The OIG identified over \$13,500 in unallowable local meals purchased with a grantee's credit card. The grantee allocated the expenses to LSC funds in 2022 and 2023. The grantee agreed to make financial adjustments for both years and reclassify the charges to a non-LSC funding source.
- During an OIG Fraud Prevention Review conducted at a grantee, the OIG could not ascertain if LSC funds were properly spent according to LSC regulations and policies. OIG noted the grantee's inability to provide evidence of proper allocation methods to support appropriate spending of LSC funds, lack of documentation to support purchases using the grantee's credit cards, not paying credit card bills promptly, resulting in penalties and interest, and lack of documentation to support reimbursements made for employee travel.

Grantees should also be mindful of preventing wasteful spending.² The OIG issued an Advisory titled: [Understanding and Preventing Wasteful Spending in LSC Operations and Grantee Programming](#), which contains further guidance regarding reasonable costs and spending.

² Waste involves incurring unnecessary costs due to inefficient or ineffective practices, systems, or controls. Waste can be different from fraud; in that it does not necessarily involve committing a crime or violating the law.

Prevention and Detection Best Practices Associated with Proper Allocation

1. Develop an allocation methodology that meets LSC requirements. The funding codes should be descriptive and easily understood for third-party review.
2. Ensure all staff with expense approving authority are familiar with LSC rules regarding reasonable and necessary costs.
3. Inform staff of the types of expenditures that could be questioned by OIG or LSC (see LSC Financial Guide section 3.7.3 for examples of disallowed costs).
4. Ensure that expenditures are adequately and contemporaneously documented in business records accessible to LSC, OIG, or other third parties as required by 45 C.F.R. § 1630.5(a)(8).
5. Document a legitimate and reasonable business purpose for all expenditures.



OIG Resources

Questions and Contacts

If you have any questions or comments or would like additional information about this post please contact Daniel O'Rourke, OIG Assistant Inspector General for Investigations at (202) 441-9948 or by email Dorourke@oig.lsc.gov.

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