



## LEGAL SERVICES CORPORATION

### 45 CFR Parts 1630 and 1631

#### Cost Standards and Procedures; Purchasing and Property Management

**AGENCY:** Legal Services Corporation.

**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** This proposed rule revises the Legal Services Corporation's (LSC) regulations governing cost allowability, prior approval requirements, and property and procurement standards applicable to LSC recipients. Through these amendments, LSC seeks to clarify existing requirements, reduce administrative burden, promote consistent oversight and enforcement, and strengthen accountability in the use of federal funds.

**DATES:** Comments must be submitted by 11:59 pm Eastern on [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

#### **ADDRESSES:**

You may submit comments by any of the following methods:

- *Email:* [lscrulemaking@lsc.gov](mailto:lscrulemaking@lsc.gov). Include "Comments on Revisions to Parts 1630 and 1631" in the subject line of the message.
- *Mail:* Brittany Sims Nwankwoala, Assistant General Counsel, Legal Services Corporation, 1825 I St. NW Ste 800, Washington, D.C. 20006, ATTN: Parts 1630 and 1631 Rulemaking.
- *Hand Delivery/Courier:* Brittany Sims Nwankwoala, Assistant General Counsel, Legal Services Corporation, 1825 I St. NW Ste 800, Washington, D.C. 20006, ATTN: Parts 1630 and 1631 Rulemaking.

**Instructions:** Electronic submissions are preferred via email with attachments in Acrobat PDF format. LSC will not consider written comments sent to any other address or received after the end of the comment period.

**FOR FURTHER INFORMATION CONTACT:** Brittany Sims Nwankwoala, Assistant General Counsel, Legal Services Corporation, 1825 I St. NW Ste 800, Washington, D.C. 20006; (202) 295-1599 (phone), or [nwankwoalab@lsc.gov](mailto:nwankwoalab@lsc.gov).

## **SUPPLEMENTARY INFORMATION:**

### **I. Background**

The Legal Services Corporation Act of 1974 authorizes LSC to establish regulations governing the use of grant funds and to ensure appropriate stewardship of Federal resources. See 42 U.S.C 2996g(e). LSC sets forth its cost standards and prior approval requirements in 45 CFR part 1630 and its procurement and property management requirements in part 1631.

In 2017, LSC revised part 1630 to provide uniform standards that require costs to be actually incurred, reasonable in amount, allocable to the grant, and consistent with generally accepted accounting principles and the recipient's accounting practices. Additionally, part 1630 establishes requirements for prior written approval and questioned cost proceedings to ensure fair and timely resolution of disputes over cost allowability. LSC also updated the prior approval threshold from \$10,000 to \$25,000 in response to requests from grantees to increase the threshold to account for inflation.

During the same rulemaking, LSC moved its property acquisition and management policies into the Code of Federal Regulations at 45 CFR part 1631. The purpose of the regulation is to ensure that property and service contracts funded in whole or in part by LSC grants are managed in accordance with standards that safeguard their use. This includes requirements for appropriate charging of goods or services to third parties that engage in activities restricted by the LSC Act. These provisions mirror long-standing federal procurement and property management principles and are designed to safeguard LSC's interests while still permitting grantees to efficiently deliver legal services.

In 2022, LSC conducted a retrospective review of its regulations to assess whether existing provisions were clear, effective, and aligned with current programmatic and compliance realities. That review identified several provisions in parts 1630 and

1631 that recipients and LSC staff have found difficult to administer consistently or that lack sufficient clarity for grantees and oversight staff. Subsequent discussions with the Office of Compliance and Enforcement (OCE), the Office of Inspector General (OIG), and other internal stakeholders confirmed those concerns. LSC is proposing to revise parts 1630 and 1631 to ameliorate these inconsistencies.

LSC believes regulatory action is justified at this time to address these ambiguities in its cost standards, prior approval requirements, and property and procurement regulations that have resulted in inconsistent interpretation and application by recipients and LSC oversight staff. Since LSC last substantively revised parts 1630 and 1631 in 2017, changes in recipient operations, procurement practices, and fiscal environments have exposed limitations in the current regulatory framework that guidance alone cannot resolve.

On January 22, 2026, the Operations and Regulations Committee (“Committee”) voted to recommend that the Board authorize LSC to engage in rulemaking on parts 1630 and 1631. The Board accepted the recommendation and voted on January 27, 2026, to authorize LSC to engage in rulemaking. On March 19, 2026, the Committee voted to recommend that the Board authorize publication of this NPRM for notice and comment. On March 23, the Board voted to authorize LSC to publish this NPRM for notice and comment.

## **II. Clarification of Prior Approval Requirements**

LSC proposes to revise its prior approval framework to eliminate ambiguity regarding when recipients must seek approval to use LSC funds for purchases or procurements. Currently, some provisions require prior approval when recipients expend \$25,000 or more of LSC funds, while related provisions require approval when recipients use more than \$25,000 of LSC funds. Compare 45 CFR 1630.6(b)(1) (“Without LSC's prior written approval, a recipient may not expend \$25,000 or more of LSC funds on any

of the following[.]” with 1631.8(a) (“As required by 45 C.F.R. § 1630.6 and 1631.3, a recipient using more than \$25,000 of LSC funds to purchase or lease personal property or contract for services must request and receive LSC's prior approval.”). The language in the latter quote mirrors the language from the previous version of the prior approval rule and is the language that LSC intended to adopt in each provision applicable to the prior approval requirement.

The phrasing inconsistency between these provisions creates uncertainty about when a recipient must seek prior approval. LSC proposes to align these provisions and to clarify that recipients must obtain prior written approval before they incur a legal obligation to expend LSC funds in excess of the applicable threshold. This clarification reflects LSC’s existing enforcement practice and will provide recipients with clearer guidance for procurement planning.

### **III. Increase in the Prior Approval Threshold**

LSC also proposes to increase the monetary threshold that triggers the requirement to obtain prior written approval. The \$25,000 threshold has remained unchanged since 2017, notwithstanding inflation, changes in procurement practices, and the increasing complexity of recipient operations. As a result, transactions that may once have warranted individualized review now routinely exceed the \$25,000 threshold, potentially diverting staff resources from higher-risk matters without corresponding compliance benefits. By increasing the threshold, LSC seeks to focus oversight resources on higher-risk expenditures while reducing the administrative burden on recipients.

LSC also seeks comment on whether it should apply a higher threshold to contracts awarded under special grants. The Office of Program Performance (OPP) already reviews and approves special grant budgets that include information on proposed contracts and purchases and the related anticipated costs through the competitive grant

process, potentially reducing the marginal value of additional prior approval under parts 1630 and 1631.

#### **IV. Treatment of Fundraising Proceeds**

LSC proposes to clarify how recipients must treat proceeds from fundraising activities that LSC funds support in whole or in part. In 2017, LSC added § 1630.5(i) to codify its longstanding policy permitting recipients to use LSC funds for allowable fundraising activities and to use funds raised to carry out the purposes of the LSC grant. The OIG has urged LSC to require recipients to treat fundraising proceeds as derivative income or, alternatively, to require recipients to reimburse the LSC account for allowable fundraising costs before allocating remaining proceeds to other accounts. After considering those recommendations, LSC Management is maintaining its position that fundraising proceeds do not constitute derivative income. The definition of derivative income adopted in the 1997 final rule limits that term to income generated by activities directly supported by Federal grant funds and excludes grants, contracts, or contributions from non-LSC sources.

Consistent with that framework, LSC proposes to state explicitly that fundraising income is not derivative but requires recipients to reimburse the LSC account from the proceeds of fundraising activities supported with LSC funds in proportion to the amount of LSC funds used. This approach will ensure that recipients use LSC funds only for authorized purposes while preserving incentives for recipients to leverage LSC funding to generate additional resources for legal services.

#### **V. Flexibility in Review Timelines for Prior Approval Requests**

LSC proposes to revise part 1631 to allow LSC to extend review timelines for complex or atypical prior approval requests. Under the current regulations, fixed review periods limit LSC's ability to obtain and evaluate additional information necessary to assess unusual or nonstandard transactions. By clarifying its authority to adjust review

timelines when circumstances warrant, LSC seeks to improve the quality of its reviews while maintaining transparency and accountability.

## **VI. Revision of Accounting Submission Deadlines**

LSC proposes to revise the deadline for submission of required accountings under § 1631.19. The current regulation requires recipients to submit accountings “no later than April 30,” a fixed date that assumes a December 31 fiscal year-end. However, many recipients operate on fiscal years ending in June or September, and the fixed deadline has caused confusion and delayed submissions.

LSC proposes to replace the fixed date with an event-based deadline tied to the close of the recipient’s fiscal year or the completion of the annual audit. This change will promote consistency, improve timeliness, and better accommodate recipients with varying fiscal calendars.

## **V. Proposed Changes**

### **PART 1630—COST STANDARDS AND PROCEDURES**

#### **§ 1630.5 Standards governing allowability of costs under LSC grants or contracts.**

LSC proposes revising § 1630.5(i) to explicitly state that fundraising proceeds are not derivative income, and that grantees are required to reimburse the LSC account with allowable and allocable LSC costs from the fundraising proceeds.

#### **§ 1630.6 Prior approval.**

LSC proposes revising § 1630.6(b) to state that recipients may not expend more than the set amount without prior approval and to increase the prior approval threshold from \$25,000 to \$50,000. LSC also proposes to revise § 1630.6(b)(1) and (3) to state that the requirement applies when the cost allocated to the LSC fund is greater than \$50,000. Furthermore, LSC proposes to clarify in § 1630.6(b)(5) that LSC prior approval is required before recipients incur a legal obligation to expend LSC funds in excess of this threshold.

## **PART 1631—PURCHASING AND PROPERTY MANAGEMENT**

### **§ 1631.3 Prior approval process.**

LSC proposes to revise paragraphs (b)(1) and (b)(2) of § 1631.3 to clarify that LSC could need to request additional information to make decisions regarding prior approval of purchases or leases of personal property, contracts for services, capital improvements, and real estate to support a request outside of the 20-day required timeframe to initially inform a recipient whether more information is needed. LSC also proposes to revise § 1631.3(d)(1) by increasing the \$25,000 prior approval threshold to \$50,000.

### **§ 1631.8 Requests for prior approval.**

LSC proposes to revise § 1631.8(a) by increasing the prior approval threshold from \$25,000 to \$50,000. Additionally, LSC proposes to revise § paragraph (b)(3) to clarify that the requirement to provide “[d]ocuments showing that a recipient followed its procurement policies and procedures in soliciting, reviewing, and approving the purchase, lease, or contract for services[,]” refers to documentation a recipient has included in their procurement files to demonstrate adherence with a recipient’s policies and procedures. This change is needed to address confusion over the type of supporting documentation needed and avoid the common need for recipients to supplement their requests after submission.

### **§ 1631.19 Accounting and reporting to LSC.**

LSC proposes to revise § 1631.19 by changing the April 30 deadline for recipients to provide the accounting report to LSC. LSC proposes to require recipients to submit the report by the date recipients are required to submit their annual audited financial statements to LSC’s Office of Inspector General. Additionally, LSC proposes to clarify that this accounting needs to reflect the cumulative amount of LSC funds used to pay for

acquisition costs, financing, and capital improvement, rather than just the amount spent in the reporting year.

LSC also wishes to clarify the types of costs that should be included in the accounting under § 1631.19. In the preamble to the 2017 NPRM for part 1631, LSC stated that “[c]osts that recipients should account for include, but are not limited to, acquisition costs in the year of purchase; mortgage payments; insurance, maintenance, and taxes; and costs associated with capital improvements made using LSC funds[.]” Legal Services Corporation, Definitions; Cost Standards and Procedures; Purchasing and Property Management, 81 FR 75006 (Oct. 28, 2016). However, the rule text requires recipients to include only the amount of LSC funds used to pay for acquisition costs, financing, and capital improvements in the accounting. In the years since LSC promulgated part 1631, LSC has required grant recipients to include only the costs identified in the rule text. LSC uses this information to ensure accurate accounting of the amount of LSC funds a grant recipient invests in real property so that when the recipient sells the property, the amount of proceeds attributable to the investment of LSC funds is returned to LSC. LSC does not include the costs of insurance and maintenance in its assessment of LSC’s interest in real estate purchased or improved using LSC funds. While the costs of insurance and maintenance allocated to the LSC grant need to be reasonable and necessary, LSC has determined that the costs associated with including those costs in the accounting required by this section exceed the benefit to LSC of including them.

### **List of Subjects**

#### **45 CFR Part 1630**

Accounting, Government contracts, Grant programs—law, Hearing and appeal procedures, Legal services, Questioned costs.

#### **45 CFR Part 1631**

Government contracts, Grant programs—law, Legal services, Real property acquisition.

For the reasons set forth in the preamble, the Legal Services Corporation proposes to amend parts 1630 and 1631 of title 45 of the Code of Federal Regulations as follows:

**PART 1630—COST STANDARDS AND PROCEDURES**

1. The authority citation for part 1630 continues to read:

Authority: 42 U.S.C. 2996g(e).

2. Amend § 1630.5 by revising paragraph (i) to read as follows:

**§ 1630.5 Standards governing allowability of costs under LSC grants or contracts.**

\* \* \* \* \*

(i) *Fundraising.* (1) Costs associated with fundraising for the purpose of increasing recipient funds available to carry out the purposes of the LSC grant are allowable and allocable to the LSC grant if they meet the requirements of this section.

(2) A recipient that charges fundraising costs to the LSC grant shall reimburse its LSC account from the fundraising proceeds in an amount equal to the amount charged to the LSC grant.

(3) Fundraising proceeds are not derivative income within the meaning of §§ 1630.2(b) and 1630.17(c).

\* \* \* \* \*

3. Amend § 1630.6 by revising paragraphs (b)(1), (3) and (5) to read as follows:

**§ 1630.6 Prior approval.**

\* \* \* \* \*

**(b) Costs requiring prior approval.**

(1) Without LSC's prior written approval, a recipient may not expend more than \$50,000 of LSC funds on any of the following:

(2) \* \* \*

(3) For costs apportioned between LSC funds and one or more other funding sources, this requirement applies when the cost allocable to LSC funds is greater than \$50,000.

(4) \* \* \*

(5) Recipients must obtain LSC's prior approval before incurring a legal obligation to expend LSC funds in excess of the applicable threshold.

\* \* \* \* \*

**PART 1631—PURCHASING AND PROPERTY MANAGEMENT**

1. The authority citation for part 1631 continues to read as follows:

Authority: 42 U.S.C. 2996g(e).

2. Amend § 1631.3 by revising paragraphs (b)(1), (b)(2), and (d)(1) to read as follows:

**§ 1631.3 Prior approval process.**

\* \* \* \* \*

(b) (1) For purchases or leases of personal property, contracts for services, and capital improvements, LSC will make a decision to approve or deny a request for prior approval within 30 days of receiving materials LSC deems sufficient to decide. LSC will inform a recipient within 20 days of receiving the prior approval request whether LSC needs additional information to make a decision and initiate the collection of this information.

(b)(2) For purchases of real estate, LSC will make a decision within 60 days of receiving materials LSC deems sufficient to decide. LSC will inform a recipient within 20 days of receiving the initial prior approval request whether LSC needs additional information to make a decision and re-initiate the collection of this information.

(3) \* \* \*

(c) \* \* \* \* \*

(d) Exigent circumstances. (1) A recipient may use more than \$50,000 of LSC funds to purchase personal property or award a contract for services without seeking LSC's prior approval if the purchase or contract is necessary;

\* \* \*

3. Amend § 1631.8 by revising paragraphs (a) and (b) to read as follows:

**§ 1631.8 Requests for prior approval.**

(a) As required by 45 CFR 1630.6 and 1631.3, a recipient using more than \$50,000 of LSC funds to purchase or lease personal property or contract for services must request and receive LSC's prior approval.

(b) \* \* \*

(3) Documentation showing that the recipient followed its procurement policies and procedures in soliciting, reviewing, and approving the purchase, lease, or contract for services (i.e., the documents recipients have in their procurement files to demonstrate adherence with the recipient's policies and procedures).

4. Revise § 1631.19 to read as follows:

**§ 1631.19 Accounting and reporting to LSC.**

A recipient must maintain an accumulative accounting of the amount of LSC funds it uses to pay for acquisition, financing, and capital improvements costs for each of its LSC-funded properties. The recipient must provide the accounting to LSC annually by no later than the date recipients are required to submit their annual audited financial statements to LSC's Office of Inspector General.

Dated: April 27, 2026.

**Stefanie K. Davis,**

*Deputy General Counsel and Ethics Officer,*

*Legal Services Corporation.*

