This document is scheduled to be published in the Federal Register on 2026-11-05 and available online at https://www.federalregister.gov/d/2026-22649, and on https://govinfo.gov

7050-01-P

LEGAL SERVICES CORPORATION

45 CFR Parts 1630 and 1631

Cost Standards and Procedures; Purchasing and Property Management

AGENCY: Legal Services Corporation.

ACTION: Final rule.

SUMMARY: This final rule revises the Legal Services Corporation's (LSC or Corporation) regulations governing cost allowability, prior approval requirements, and property and procurement standards applicable to LSC recipients. The final rule clarifies when recipients must obtain prior approval for expenditures of LSC funds; increases the monetary threshold for prior approval; clarifies the treatment of proceeds from fundraising activities supported with LSC funds; provides additional flexibility in LSC's review of prior approval requests; clarifies documentation requirements for prior approval requests; and revises the deadline and requirements for accounting for LSC funds invested in real estate. These amendments are intended to clarify existing requirements, reduce administrative burden, promote consistent oversight and enforcement, and strengthen accountability in the use of Federal funds.

DATES: This final rule is effective on June 1, 2027.

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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 45 CFR part 1631.

LSC last revised part 1630 in 2017 to provide uniform standards governing the allowability and allocation of costs charged to LSC grants and contracts. Among other things, the 2017 rule required costs to be actually incurred, reasonable and necessary, allocable to the grant or contract, consistent with generally accepted accounting principles and recipient accounting practices, and adequately documented. The 2017 rule also established requirements governing prior written approval and questioned cost proceedings. As part of that rulemaking, LSC increased the prior approval threshold from $10,000 to $25,000 to account for inflation.

During the same rulemaking, LSC incorporated its property acquisition and management policies into the Code of Federal Regulations as 45 CFR part 1631. Part 1631 establishes standards for purchasing, leasing, using, and disposing of LSC-funded personal property and real estate and for using LSC funds to contract for services.
In 2022, LSC conducted a retrospective review of its regulations to determine whether existing provisions remained 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 found difficult to administer consistently or that lacked sufficient clarity for recipients and oversight staff. Subsequent discussions with the Office of Compliance and Enforcement, the Office of Inspector General (OIG), and other internal stakeholders confirmed those concerns.

LSC determined that regulatory action was appropriate to address ambiguities in its cost standards, prior approval requirements, and property and procurement regulations that had resulted in inconsistent interpretation and application. 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 existing regulatory framework that guidance alone cannot resolve.

II. Procedural History of This Rulemaking

On January 22, 2026, the Operations and Regulations Committee (Committee) of LSC's Board of Directors (Board) voted to recommend that the Board authorize LSC to engage in rulemaking on parts 1630 and 1631. On January 27, 2026, the Board accepted the Committee's recommendation and authorized LSC to engage in rulemaking.
On March 19, 2026, the Committee voted to recommend that the Board authorize publication of a Notice of Proposed Rulemaking (NPRM). On March 23, 2026, the Board voted to authorize LSC to publish the NPRM for notice and comment.

On April 30, 2026, LSC published the NPRM in the Federal Register**.** 91 FR 23228, Apr. 30, 2026. LSC sought public comment on LSC's proposed revisions concerning the prior approval threshold and timing requirements, fundraising proceeds, review timelines for prior approval requests, documentation supporting prior approval requests, and accounting for LSC funds invested in real estate. The comment period closed on June 29, 2026.

Materials regarding this rulemaking are available in the open rulemaking section of LSC's website at https://www.lsc.gov/about-lsc/laws-regulations-and-guidance/rulemaking. After the effective date of the rule, those materials will appear in the closed rulemaking section at https://www.lsc.gov/about-lsc/laws-regulations-and-guidance/rulemaking/closed-rulemaking.

III. Discussion of Comments and Regulatory Provisions

LSC received three comments during the public comments period: (1) the National Legal Aid and Defender Association (NLADA); (2) Community Legal Services located in Orlando, Florida, an LSC funding recipient; and (3) James E. Scarborough, an

individual contributor. All commenters expressed support for several elements of the proposed revisions to parts 1630 and 1631.

NLADA stated that it supported LSC's proposal to raise the prior approval threshold to $50,000**,** which they stated would help reduce low-risk administrative burdens. They also supported the plan to provide greater flexibility in accounting deadlines tied to recipients' audited financial statements. Additionally, NLADA requested that LSC further clarify the fundraising reimbursement rule to define what counts as "fundraising costs" and to exclude all staff salaries from that definition to avoid impractical tracking burdens and unintended inefficiencies.

Jeffrey D. Harvey, CEO of Community Legal Services in Orlando, FL, requested additional clarification on how the proposed standard for recipients to obtain prior approval before they incur a legal obligation to expend LSC funds applies to recurring or month-to-month contracts, allocation changes over time, and whether these situations trigger prior approval under the new rule.

James E. Scarborough supported LSC's efforts to reduce administrative burden and clarify requirements. He asked LSC to provide stronger justification for the proposed $50,000 prior-approval threshold, consider alternative approaches, and offer additional implementation guidance for the revised fundraising and accounting provisions.

IV. Section-by-Section Discussion of Proposed Changes and Comments

A. Part 1630—Cost Standards and Procedures

§ 1630.5 Standards Governing Allowability of Costs Under LSC Grants or Contracts

LSC proposed to revise § 1630.5(i) to clarify the treatment of proceeds from fundraising activities supported in whole or in part with LSC funds. LSC added § 1630.5(i) in 2017 to codify its longstanding policy permitting recipients to use LSC funds for allowable fundraising activities undertaken to increase the resources available to carry

out the purposes of an LSC grant. OIG 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 the remaining proceeds to other accounts.

LSC has determined that fundraising proceeds should not be included in the definition of 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. Furthermore, LSC has determined that proceeds generated through fundraising are not "earned" within the meaning of derivative income. Unlike costs incurred in the ordinary course of business operations, fundraising expenses are distinctly different; they are incurred for the purpose of soliciting contributions and do not transform those contributions into earned income. Similarly, gifts are not considered earned income. Treating fundraising proceeds as derivative income would be inconsistent with that framework

Comments*:* NLADA requested clarification regarding what constitutes a "fundraising cost" subject to the proposed reimbursement requirement. NLADA agreed that reimbursement is reasonable when LSC funds are used for costs directly associated with a fundraising activity, such as venue/space rental fees, food, or other expenses associated with planning and hosting a fundraising event. NLADA expressed concern, however, that the proposed language could be interpreted to include staff salaries, efforts to secure grants, and costs associated with creating promotional or educational materials. NLADA stated that such an interpretation could require recipients to track and retrospectively allocate staff time and other ordinary operating costs whenever those activities ultimately contribute to successful fundraising. NLADA also noted that restrictions applicable to another grant may prevent a recipient from using the proceeds

of that grant to reimburse its LSC account. NLADA therefore requested that LSC clarify what constitutes a fundraising cost or identify costs that are not subject to the reimbursement requirement. James Scarborough similarly recommended that LSC provide implementation guidance or examples concerning the treatment of fundraising proceeds

Response*:* LSC Management agrees that clarification is appropriate. LSC intends the reimbursement requirement to apply to costs directly attributable to a fundraising activity for which the recipient receives fundraising proceeds. For example, if a recipient uses LSC funds to pay for venue/space, food, printing, or other costs incurred specifically to conduct a fundraising event, the recipient must reimburse its LSC account from the proceeds of that activity in an amount equal to the LSC funds used for those costs. LSC does not intend the provision to require recipients to identify and reimburse ordinary personnel, administrative, outreach, or educational costs merely because those activities or materials subsequently contribute to fundraising. Similarly, the provision does not require reimbursement for the costs of staff salaries incurred in preparing grant applications. Nor does LSC intend to require a recipient to use the proceeds of a grant or contribution in a manner inconsistent with restrictions imposed by the source of those funds. The relevant inquiry is whether the cost was incurred specifically for the fundraising activity rather than whether an activity or work product ultimately contributed to the recipient's ability to obtain non-LSC funds.

LSC believes this interpretation addresses NLADA's concerns while effectuating the purpose of the amendment. The final rule therefore retains the proposed reimbursement requirement. LSC provides this explanation to clarify the scope of the requirement and will provide additional implementation guidance as necessary. LSC adopts the proposed amendments to § 1630.5 without change.

§ 1630.6 Prior Approval

The existing regulations contain inconsistent language describing the amount of LSC funds that triggers the prior approval requirement. Section 1630.6(b)(1) provides that, without LSC's prior written approval, a recipient may not expend "$25,000 or more" of LSC funds on specified transactions, while § 1631.8(a) applies when a recipient uses "more than $25,000" of LSC funds. The latter formulation reflects the language of the prior version of the rule and the standard LSC intended to apply consistently.
LSC proposed to eliminate this inconsistency and clarify that recipients must obtain prior written approval before incurring a legal obligation to expend LSC funds in excess of the applicable threshold. This clarification reflects LSC's existing enforcement practice and provides recipients with a clearer point at which prior approval is required for procurement planning purposes.

LSC also proposed to increase the prior approval threshold from $25,000 to $50,000. The $25,000 threshold has remained unchanged since 2017 despite inflation, changes in procurement practices, and the increasing complexity of recipient operations. Transactions that may not have warranted individualized review when the threshold was adopted now routinely exceed $25,000. Maintaining the existing threshold may therefore divert recipient and LSC staff resources to transactions that present comparatively lower compliance risks.

LSC Management believes the higher threshold appropriately focuses oversight resources on higher-risk expenditures while reducing an unnecessary administrative burden on recipients. For costs apportioned between LSC funds and one or more other funding sources, prior approval is required when the portion allocable to LSC funds exceeds $50,000.

The final rule also clarifies that recipients must obtain prior approval *before* incurring a legal obligation to expend LSC funds in excess of the applicable threshold. This provision establishes a clear and administrable point at which the approval

requirement attaches and avoids uncertainty about whether a recipient may enter a binding agreement before seeking LSC's approval.

Comments*:* NLADA supported increasing the prior approval threshold from $25,000 to $50,000 and clarifying that the threshold applies when expenditures exceed $50,000. NLADA stated that the increase would reduce administrative burdens associated with lower-risk transactions and allow recipients and LSC to focus resources on higher-risk expenditures. James Scarborough generally supported increasing the threshold but requested additional explanation for selecting $50,000 and suggested that LSC consider alternatives, including inflation-indexed, grant-specific, or risk-based thresholds. Community Legal Services requested clarification regarding when a recipient "incur[s] a legal obligation to expend LSC funds," particularly for recurring or month-to-month contracts and costs whose allocation to LSC funds changes over time. He also asked how the standard would address arrangements structured to avoid the prior approval threshold.

Response*:* Generally, a recipient must obtain prior approval before incurring a legal obligation to expend more than $50,000 in LSC funds. However, if the recipient cannot reasonably determine the amount it will charge to LSC when it enters into the contract, it must seek prior approval once it reasonably anticipates that its charges to LSC under the contract will exceed $50,000. This may occur, for example, because the recipient requires additional services under a contract or because a change in funding sources increases the portion of the costs allocated to LSC. A recipient that reasonably does not anticipate exceeding the threshold when it enters into the contract does not violate the prior approval requirement by entering into the contract without LSC approval.

For example, a recipient may enter into a multi-year consulting contract without prior approval if, at the outset, it reasonably expects to charge less than $50,000 of the contract costs to LSC funds. If the recipient determines two years into the contract that it

will need additional services and realizes that the amount charged to LSC will exceed $50,000, the recipient must seek prior approval at that time. The same principle applies when changes in funding or cost allocations increase the portion of a contract that the recipient expects to charge to LSC funds.

Alternately, if a recipient enters into a multi-year contract under which the amount payable in any single year is less than $50,000, but the recipient knows at the time it enters into the contract that the total amount payable over the term of the contract will exceed $50,000 in LSC funds, then the recipient must obtain prior approval from LSC before entering into the contract.

Recipients remain responsible for monitoring their expenditures and complying with their procurement policies regardless of whether LSC prior approval is initially required. LSC adopts the proposed amendments to § 1630.6 without change.

B. Part 1631—Purchasing and Property Management

§ 1631.3 Prior Approval Process

Under existing § 1631.3(b), LSC generally must decide whether to approve or deny a request involving purchases or leases of personal property, contracts for services, and capital improvements within 30 days after receiving materials LSC deems sufficient to decide. For purchases of real estate, the corresponding period is 60 days. The regulation also provides that LSC will inform a recipient within 20 days after receiving the initial request whether additional information is necessary.

LSC's experience administering the regulation has demonstrated that complex or atypical requests may require additional information that LSC could not reasonably identify during its initial review. A fixed interpretation of the 30- and 60-day provision could therefore impair LSC's ability to obtain information necessary to evaluate a transaction after the initial review period.

The final rule clarifies how the 30- and 60-day decision periods apply when LSC determines that additional information is necessary to decide a prior approval request. The period runs from LSC's receipt of all materials it deems sufficient to make a decision. If, during its review, LSC determines that more information is necessary, including after LSC has previously requested additional information, the initial, applicable decision period does not continue to run while LSC awaits the requested information. Upon receipt of the additional information, LSC will determine whether the materials are sufficient to make a decision, and the applicable 30- or 60-day decision period will begin from the date LSC has received the materials it deems sufficient. This clarification preserves the existing decision periods while recognizing that LSC may need to request additional information more than once before it has sufficient information to complete its review.

The final rule also increases the threshold applicable to exigent circumstances in § 1631.3(d)(1) from $25,000 to $50,000, consistent with the amendments to §§ 1630.6 and 1631.8.

Comments: Commenters supported LSC's efforts to clarify and streamline the prior approval process. NLADA specifically supported increasing the prior approval threshold to $50,000 because the higher threshold will reduce administrative burdens associated with lower-risk transactions.

Response: This amendment maintains consistency with the prior approval threshold established in §§ 1630.6 and 1631.8. LSC adopts the proposed amendments to § 1631.3 without change.

§ 1631.8 Requests for Prior Approval

Consistent with the amendments to § 1630.6, the final rule increases the threshold in § 1631.8(a) from $25,000 to $50,000. A recipient using more than $50,000 of LSC

funds to purchase or lease personal property or contract for services must therefore request and receive LSC's prior approval.

LSC also proposed to clarify the documentation required under § 1631.8(b)(3). The existing rule requires documentation showing that the recipient followed its procurement policies and procedures in soliciting, reviewing, and approving the purchase, lease, or contract for services. Recipients have expressed uncertainty about the type of supporting documentation LSC expects, resulting in requests that require supplementation after submission.

The final rule clarifies that the required documentation consists of the documents maintained in the recipient's procurement files that demonstrate adherence to the recipient's procurement policies and procedures. LSC believes this clarification will make the requirement easier to administer and reduce the need for recipients to supplement prior approval requests after submission.

Comments*:* Commenters supported increasing the prior approval threshold and aligning the provisions governing when prior approval is required.

Response: LSC adopts the proposed amendments to § 1631.8 without change.

§ 1631.15 Capital Improvements

Consistent with the amendments to §§ 1630.6, 1631.3, and 1631.8, the final rule increases the threshold in § 1631.15(a) from $25,000 to $50,000. A recipient must obtain LSC's prior written approval before using more than $50,000 LSC funds to make capital improvements to real estate.

Although the NPRM did not specifically identify § 1631.15(a) for revision due to staff omission, the amendment is a logical outgrowth of the proposal pursuant to the Administrative Procedure Act (APA). See 5 U.S.C. § 553(b)(A)-(B). The NPRM expressly proposed increasing the $25,000 threshold to $50,000 in §§§ 1630.6, 1631.3, and 1631.8 under the same circumstances addressed by § 1631.15. The proposal provided

sufficient notice, detail, and rationale for LSC's intent to increase the current amount, and does not introduce a new regulatory approach or materially alter the content of the proposal.

Furthermore, a commenter reviewing the proposed amendments to §§§ 1630.3, 1630.6, and 1631.8 reasonably could anticipate that LSC could also make the corresponding change in § 1631.15. Therefore, LSC concludes that the amendment to § 1631.15 is within the scope of the proposed rule and the APA's logical outgrowth doctrine.

Comments: While commenters did not explicitly review this provision, they supported increasing prior approval thresholds under the same circumstances and aligning provisions governing when prior approval is required.

Response: LSC adopts the proposed amendments to § 1631.15.

§ 1631.19 Accounting and Reporting to LSC

Existing § 1631.19 requires a recipient to maintain an accounting of LSC funds relating to the purchase or maintenance of real estate purchased with LSC funds and to provide that accounting to LSC no later than April 30 of the following year or in its annual audited financial statements. The April 30 deadline assumes a calendar-year fiscal year and has caused confusion and difficulty for recipients operating on different fiscal calendars.

The final rule eliminates the fixed April 30 deadline. Instead, recipients must provide the required accounting annually no later than the date on which they are required to submit their annual audited financial statements to LSC's Office of Inspector General. Tying the accounting deadline to an existing reporting requirement accommodates recipients with different fiscal years and provides a consistent event-based deadline.

The final rule also clarifies that the accounting is cumulative. A recipient must maintain an accounting of the amount of LSC funds used to pay acquisition, financing, and capital improvement costs for each LSC-funded property, over the life of the property.

In the preamble to the 2016 Notice of Proposed Rulemaking, LSC identified additional costs, including insurance, maintenance, and taxes, as costs for which recipients should account. See 81 FR 75006, 75017, Oct. 28, 2016. The regulatory text ultimately required recipients to include only LSC funds used for acquisition costs, financing, and capital improvements. See 82 FR 37327 37344, Aug. 10, 2017. Since promulgating part 1631, LSC has required recipients to report only the categories identified in the regulatory text.

LSC uses this information to determine accurately the amount of LSC funds invested in real property so that, upon disposition, the appropriate amount of proceeds attributable to LSC's investment may be returned to the LSC grant. Insurance and maintenance costs are not included in LSC's assessment of its interest in real estate. Although insurance and maintenance costs allocated to an LSC grant must independently satisfy applicable cost standards, LSC has determined that the administrative cost of including those expenditures in the § 1631.19 accounting exceeds the benefit to LSC.

Comments: Commenters supported replacing the April 30 deadline with a deadline tied to the submission of individual recipients' annual audited financial statements. James Scarborough recommended that LSC provide implementation guidance or examples regarding the revised accounting deadline, particularly for recipients with different fiscal years and during the transition to the new requirements

Response: To address the transition concern raised by James Scarborough, LSC will provide recipients sufficient time and implementation guidance before the revised requirements take effect. Recipients will not be required to resubmit an accounting that

became due before the effective date solely to conform to the revised deadline or format. LSC will provide additional implementation guidance as necessary. LSC adopts the proposed amendments to § 1631.9 without change.

List of Subjects

45 CFR Part 1630

Accounting, Government contracts, Grant program—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 stated in the preamble, the Legal Services Corporation amends 45 CFR Chapter XVI 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) introductory text and (3), and adding paragraph (b)(5) to read as follows:

§ 1630.6 Prior approval.

* * * * *

(b) * * *

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

* * * * *

(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.

* * * * *

(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

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

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

5. Amend § 1631.3 by revising paragraphs (b)(1) and (2), and (d)(1) introductory text 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. If LSC requests additional information, the 30-day period will restart and begin upon LSC's receipt of the requested information.

(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 If LSC requests additional information, the 60-day period will restart and begin upon LSC's receipt of the requested information.

* * * * *

(d) * * *

(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;

* * * * *

6. Amend § 1631.8 by revising paragraphs (a) and (b)(3) 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).

7. Amend § 1631.15 by revising paragraph (a) to read as follows:

§ 1631.15 Capital Improvements

(a) As required by 45 CFR 1630.6 and 1631.3, a recipient must obtain LSC's prior written approval before using more than $50,000 of LSC funds to make capital improvements to real estate.

* * * * *

8. 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: November 3, 2026.

Stefanie Davis,

Deputy General Counsel and Ethics Officer,

Legal Services Corporation.

[FR Doc. 2026-22649 Filed: 11/4/2026 8:45 am; Publication Date: 11/5/2026]