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# LSC OIG Audit Guide and Compliance Supplement Updates

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July 25, 2023



# Background on Project

The LSC OIG contracted with an independent public accounting firm, Harper, Rains, Knight & Company P.A., to update the LSC OIG Audit Guide for Recipients and Auditors and Appendix A, Compliance Supplement for Audits of LSC Recipients.



# Background on Updates

- Audit Guide – The Audit Guide was issued in 1996 and this is the first revision.
- Compliance Supplement – The last update was in 2016. The updates include updated Audit Objectives and Audit Procedures. Updates were also made for the following LSC Regulation Changes and LSC Guidance:
  - Part 1610 – Use of Non-LSC Funds, Transfers of LSC Funds, Program Integrity
  - Part 1627 – Subgrants
  - Part 1628 – Recipient Fund Balances
  - Part 1629 – Bonding Requirements for Recipients
  - Part 1631 – Purchasing and Property Management
  - Part 1635 – Timekeeping Requirement



Audit Guide  
for  
Recipients  
and  
Auditors  
Update



# Effective Date

The updated Audit Guide will be effective for audits of fiscal years ending on or after

**September 30, 2023.**



# Key Audit Guide Updates

- All LSC funds must be classified as a **Major Program** regardless of spending threshold.
- LSC funds are no longer required to be treated as high risk. The funds must be considered as a major program and the LSC OIG Appendix A: Compliance Supplement must be followed.
- The entity should still be classified as high risk should they have any high-risk indicators.



# Key Audit Guide Updates concluded

- Deleted the Sample Audit Agreement Appendix
- Deleted the Guide for Procurement of Audit Services by Legal Services Corporation Grantees Appendix

Guidance to procure and contract for an audit can be found in the National Council of Nonprofits website at:

[Nonprofit Audit Guide© | National Council of Nonprofits](#)



## — Guidance/Reference Updates

- LSC OIG Audit Guide mirrors Uniform Guidance, 2 CFR Part 200, which replaced OMB Circular A-133.
- While the Uniform Guide is applicable for not-for-profit entities, the LSC OIG Audit Guide is applicable for **ALL** entities who receive LSC funds.
- For most purposes, LSC funds are non-Federal funds; however, recipients must report their expenditures on a Schedule of Expenditures of Federal awards (SEFA) as prescribed in the LSC Financial Guide.
- IPAs **should** consult Uniform Guidance for planning and performing an audit of LSC funds. IPAs **must** use the LSC OIG Audit Guide and Appendix A, Compliance Supplement to determine the appropriate procedures to perform.





## — Guidance/Reference Updates

- There is **NO** materiality calculation used to determine if the LSC OIG Audit Guide is required. Expenditure of any LSC funds expended in the current year (whether received in the current year or prior years) requires that an audit be conducted in accordance with the LSC OIG Audit Guide.
- All auditing standards have been updated in the Guide to reflect the current standards in place.
- All web addresses have been updated to the most current content.



## — Clarifications

- Updated record retention policy. IPAs must maintain audit workpapers for five (5) years. It was previously three (3) years.
- Added language that the IPA should contact the OIG immediately if a recipient asserts attorney client privileges.



Compliance  
Supplement  
Updates



Effective  
Date

The updated Appendix A: Compliance Supplement will be effective for audits of fiscal years ending on or after

**September 30, 2023.**



## — New Sections

New sections added to the Compliance Supplement for LSC  
Regulation changes or updates:

- 1629 Bonding Requirements For Recipients
- 1631 Purchasing and Property Management



# — Regulatory Provisions

Revised the summaries of regulatory provisions:

- To add clarity
- To ensure consistency with LSC Regulations



# — New Testing Steps Format

Revised the format for test work guidance to include:

- Audit Objectives
- Suggested Audit Procedures – Internal Control
- Suggested Audit Procedures – Substantive



## — Must vs Should

- When the word "must" is used, it indicates a requirement for the IPA.
- When the word "should" is used, it indicates a best practice or recommended approach that should be strongly considered by the IPA rather than a requirement.





## Suggested Audit Procedures

- The IPA must judge whether the suggested audit procedures are sufficient to achieve the stated audit objectives or whether alternative audit procedures are needed.
- The IPA should use professional judgement to determine if these suggested procedures are sufficient to achieve the audit objective or alternative procedures are needed.



# Deviation from Suggested Audit Procedures

- The IPA **must** document the rationale when deviating from the suggested audit procedures included in the Compliance Supplement.



# Document Audit Work Performed and Conclusions Reached

- The IPA **must** document its work.
- OIG Quality Control Reviews have identified deficiencies where IPAs have not adequately documented the audit work performed and conclusions reached in accordance with generally accepted government auditing standards.



# Use of Non-LSC Funds

## Part 1610

- Updated permissible use of Non-LSC funds
- Categorized and defined restrictions as extended restrictions, standard restrictions, limited restrictions and other restrictions.
- Included reference to LSC Program Letter 22-3 which provides detailed Program Integrity Guidance and updated the Certificate of Program Integrity Form and instructions.



# Subgrant Requirements

## Part 1627

- Defines subgrants and procurement contracts
- Clarifies that it is up to the recipient to make case-by-case determinations whether each agreement that it makes with another entity constitutes a subgrant or procurement contract .
- Requires recipients to obtain LSC's written approval when making a subgrant greater than \$20,000.



# Subgrantee Requirements Part 1627 (Continued)

- Basic field grants:
  - Subgrant may not be for a period longer than one year
  - Unexpended funds at the end of the subgrant will be considered part of the recipient's available LSC funds.
- Special purpose grants:
  - Subgrant may not be for a period longer than the term of the grant.
  - All unexpended special grant funds must be returned to LSC at the end of the subgrant period, unless written approval is obtained from LSC.



# Recipient Fund Balances

## Part 1628

- Added the *LSC Financial Guide information* and LSC Program Letter 23-2 fund balance information to the Compliance Requirements Section.
- Added additional suggested audit procedures for fund balances.
- Determine that no funds provided under a one-time or special purpose grant were expended after the expiration date of the grant without the prior written approval of LSC. If approval was not obtained, determine if all unexpended funds under such grants were returned to LSC.



# Recipient Fund Balances

## Part 1628 (Continued)

- Verify that derivative income has been properly allocated to the LSC fund as support. (Derivative income is income earned by a recipient from LSC-supported activities during the term of an LSC grant or contract, and includes, but is not limited to, income from fees or services (including attorney fee awards and reimbursed costs), sales and rentals of real or personal property, and interest earned on LSC grant or contract advances (as defined in 45 C.F.R. § 1630.2 (b)).
- Verify that the recipient's excess fund balance for the period under audit is calculated in accordance with 45 C.F.R. Part 1628 and includes LSC derivative income defined in § 1630.2(b).





# Bonding Requirements

## Part 1629

- Added a new section 1629, “Bonding Requirements for Recipients”.
- A recipient must supply fidelity bond coverage for all employees, officers, directors, agents, and volunteers.
- A recipient must carry fidelity bond coverage or similar coverage at a minimum level of at least 10% of its annualized funding level for the previous fiscal year.
- Costs of these bonds are allowed if expended in compliance with LSC Cost Standards (Section 1630).



# LSC Fund Limit

## Parts 1630 and 1631

Updated the fund limit recipients may spend on the below items without prior written approval from LSC to \$25,000.

- A single purchase or single lease of personal property
- A single contract for services
- A single combined purchase or lease of personal property and contract for services
- Capital improvements

*Note: Per LSC there is a slight conflict in the regulations (Part 1630 and 1631) of which LSC is aware. Part 1631 uses the wording “more than \$25,000 of LSC funds” rather than the wording in Part 1630 of “\$25,000 or more”. LSC enforces the language in Part 1631.*



# Purchasing and Property Management

## Part 1631

- Added a new section, “ Purchasing and Property Management”
- Sets new standards for purchasing, leasing, using, and disposing of LSC-funded personal property and real estate and using LSC funds to contract for services.



# Timekeeping Requirements

## Part 1635

- New timekeeping requirements that require allocations of salaries and wages on records that accurately reflect the work performed
- Applies to any attorney, paralegal, or other recipient employee who performs work that is charged to one or more awards as a direct cost
- Records must be supported by a system of internal control
- Comply with established policies and procedures
- Proper documentation of client, case number, dates and description of work performed



# Program Letter 23-2 Revenue Recognition

- In response to recipient feedback on Financial Accounting Standards Board (FASB) Accounting Standards Update 2018-08 (ASU 2018-08) guidance, LSC issued Program Letter 23-2 *Revenue Recognition Guidance* on May 12, 2023.
- Program Letter 23-2 supersedes Program Letter 20-4, issued April 30, 2020
- Program Letter 23-2 restates that LSC Basic Field Grants are considered non-exchange transactions/contributions with conditions.
- Recipients should refer to LSC Financial Guide Section 3.1.1.a, Revenue Recognition, for additional guidance.



# Reporting and Report Submission Requirements

Please use the below links for the reporting and submission requirements for all LSC financial statement audits as well as relevant FAQs.

[Audit Guidance: FAQs on Submission Requirements | OFFICE OF INSPECTOR GENERAL \(lsc.gov\)](#)

[Audit Guidance: FAQs on Reporting Requirements | OFFICE OF INSPECTOR GENERAL \(lsc.gov\)](#)

Reminder: LSC audits are due to the OIG **120 days** after close of the recipient's fiscal year, which differs from Uniform Guidance requirements.



## — Questions and Guidance

Reminders:

- Audit questions should be directed to LSC OIG  
[audits@oig.lsc.gov](mailto:audits@oig.lsc.gov)
- Accounting questions should be directed to LSC  
[fiscalquestions@lsc.gov](mailto:fiscalquestions@lsc.gov)



# LSC OIG Websites

PLEASE VISIT THE LSC OIG WEBSITE FOR  
ADDITIONAL INFORMATION REGARDING  
THE AUDIT GUIDE AND COMPLIANCE  
SUPPLEMENT

- [Home Page | OFFICE OF INSPECTOR GENERAL \(lsc.gov\)](#)
- FOR A LINK TO CURRENT GUIDANCE AND GUIDANCE EFFECTIVE FOR AUDIT OF RECIPIENT FISCAL YEARS ENDING ON OR AFTER SEPTEMBER 30, 2023
- [Overview of Audit Guidance | OFFICE OF INSPECTOR GENERAL \(lsc.gov\)](#)







QUESTIONS /  
COMMENTS

