



AUDIT ADVISORY

TO: Legal Services Corporation (LSC) Grantee Independent Public Accountants (IPAs), Executive Directors, Chief Financial Officers, and Board Chairs

FROM: Roxanne Caruso
Assistant Inspector General for Audit

DATE: August 25, 2025

SUBJECT: Ensuring Independent Public Accounting Firms Conduct Rigorous Annual Audits of LSC Grantees – Recommendations Based on Fiscal Years 2023 and 2024 Quality Control Reviews

Actions to Enhance the Quality and Rigor of Annual LSC Grantee Financial Statement Audits

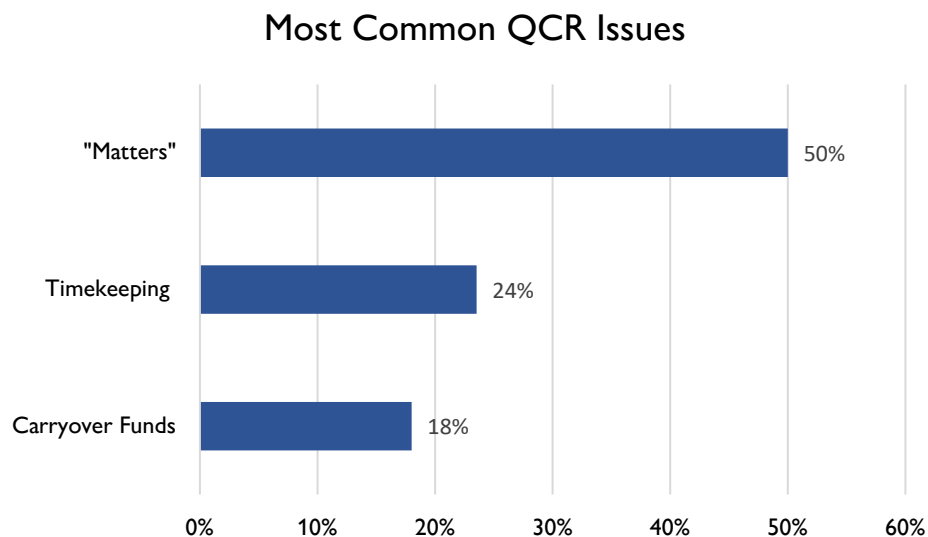
To promote integrity, accountability, and transparency in the use of LSC funds, federal appropriations law requires all LSC grantees to undergo annual financial statement audits conducted by independent public accounting firms. Per federal law, the Office of Inspector General (OIG) oversees this process. To that end, the OIG contracts with McBride, Lock and Associates, LLC, a Certified Public Accounting firm, to conduct quality control reviews (QCRs) of selected IPAs.

These reviews serve as critical checkpoints to help ensure that required grantee audits comply with auditing standards¹ and OIG guidance. Based on findings from 34 QCRs conducted on fiscal year 2023 and 2024 grantee audits, we offer the following recommendations to bolster audit quality, promote regulatory compliance, and reduce the need for post-audit corrective actions, while ensuring each grantee is well-prepared for the required audit.

¹ These standards include: Generally Accepted Government Auditing Standards, Generally Accepted Auditing Standards, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) and the LSC OIG Audit Guide for Recipients and Auditors which includes Appendix A: Compliance Supplement for Audits of LSC Recipients.

Overview of Common Deficiencies

The chart below summarizes the most common deficiencies identified in the FY 2023–2024 QCRs. Percentages represent the proportion of QCRs in which each issue was noted. This visual is intended to provide IPAs with a broad view of where compliance gaps occurred so they can address all relevant areas during audit planning and execution.



Gain a Thorough Understanding of the LSC Program

QCRs frequently found that IPAs did not apply the LSC OIG Compliance Supplement's (link [here](#)) suggested audit procedures. To effectively evaluate compliance, IPAs should have a thorough understanding of the unique nature of the LSC program and its regulatory framework.

Audit planning should include documentation of how compliance with LSC requirements will be evaluated, and audit work should clearly show that the suggested procedures in the LSC OIG Compliance Supplement were followed.

Perform a Comprehensive Review of Program Activities

Half of all QCRs identified inadequate review and testing of “matters” as defined in 45 C.F.R. § 1620.2 (b). “Matters” are actions that contribute to the delivery of program services but do not involve direct legal advice to or representation of specific clients.² Some IPAs did not design or

² Additional information on “matters” including examples can be found at [eCFR :: 45 CFR 1620.2 -- Definitions](#).

document audit procedures sufficient to determine whether “matters” were consistent with the grantee’s established priorities.

IPAs should review the definition of “matters” and apply the suggested audit procedures from the LSC OIG Compliance Supplement to ensure that test work addresses both the proper classification of these activities and their alignment with written priorities. For additional guidance on reviewing “matters,” see our Audit Bulletin – Elevating Your Audit – How to Improve Your Review of “Matters,” (link [here](#).)

Ensure Compliance with Timekeeping Requirements

Twenty-four percent of QCRs found that IPAs did not review an adequate number of timesheets or failed to obtain certifications for part-time employees, as required under Part 1635 of the LSC OIG Compliance Supplement.

Audit work should confirm that sample sizes are adequate, that all relevant employee certifications are obtained, and that the grantee’s timekeeping system fully complies with LSC requirements.

Accurately Document a Review of Carryover Funds

Deficiencies in the review of carryover funds were noted in 18 percent of QCRs. LSC allows recipients to carryover up to 10 percent of their Basic Field Grant awards to the next fiscal year without approval. Amounts exceeding 10 percent require a formal request and approval from LSC. Requirements related to excess fund balances are addressed in Part 1628 – Recipient Fund Balances of the LSC OIG Compliance Supplement.³ The Compliance Supplement includes suggested audit procedures for the review of carryover funds.

IPAs should calculate the grantee’s prior-year fund balance, confirm controls are in place to identify when a waiver is needed, and verify that expenditures meet accountability requirements for any approved waivers.

Ensure Accuracy in Grant Expenditures and Revenue Reporting

The QCRs identified three compliance issues. These included one instance where an LSC grant was over expended, one instance where LSC revenue was not properly recognized, and one instance where the audit included an unexplained transfer of LSC funds. Although infrequent, each of these situations indicates a weakness in financial controls and reporting practices that could affect the accuracy of the financial statements and compliance with LSC requirements.

³ Additional information on carryover funds can be found at [eCFR :: 45 CFR Part 1628 -- Recipient Fund Balances](#).

IPAs should ensure that audit procedures test for over-expenditures, verify that LSC revenue is recognized in accordance with applicable guidance, and investigate and document the propriety of any transfers involving LSC funds.

Document Compliance with Audit Standards

Two QCRs found that IPAs did not adequately document a low-risk determination for the grantee, and one QCR found incomplete documentation of the supervision, review, and approval of the audit.

IPAs should ensure that all planning determinations, including low-risk assessments, are thoroughly documented. In addition, supervisory review and approval should be fully completed and clearly reflected in the workpapers, providing evidence of compliance with applicable auditing standards.

We appreciate your close attention to these recommendations. Our aim is to help ensure that annual audits are rigorously designed and conducted to promote accountability, transparency, and integrity in the expenditure of federal funds. If you have any questions regarding this Advisory, please contact me by phone at 202-997-2260 or by email rcaruso@oig.lsc.gov.

CC: Lynn Jennings
LSC Vice President for Grants Management

Lora Rath
LSC Director of Office of Compliance and Enforcement