



## AUDIT ADVISORY

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

**FROM:** Grace Nyakoe *Grace Nyakoe*  
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Acting for: Roxanne Caruso Assistant Inspector General for Audit

**DATE:** September 9, 2024

**SUBJECT:** Ensuring Independent Public Accounting Firms Conduct Rigorous Annual Audits of LSC Grantees – Recommendations Based on Fiscal Years 2022 and 2023 Quality Control Reviews

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

To ensure integrity, accountability, and transparency in the expenditure of LSC funds, LSC grantees are required by federal appropriations law to undergo annual financial statement audits conducted by independent public accounting firms. Per federal law, the Office of Inspector General (OIG) oversees this process. 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 are critical checkpoints, helping to ensure that required grantee audits adhere to applicable standards<sup>1</sup> and OIG guidance.

The OIG performed 35 QCRs of fiscal year 2022 and 2023 audits. The QCRs revealed key opportunities to improve and enhance the quality of financial statement audits of LSC grantees. We present the following recommendations aimed at enhancing audit quality, ensuring compliance, and minimizing post-review corrective actions. By carefully considering these recommendations, IPAs can significantly contribute to the accountability and effectiveness of LSC grantee audits. These

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<sup>1</sup> 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.

recommendations will also better ensure that each LSC grantee is well-prepared to undergo the required audit.

### **Gain a Thorough Understanding of the LSC Program**

The most common issues noted in our QCRs involved inadequate application of the LSC OIG Compliance Supplement's (link [here](#)) suggested audit procedures. Therefore, we recommend that during audit planning, IPAs should fully understand the unique nature of the LSC program and regulatory requirements to effectively evaluate compliance. Auditors should document their evaluation of grantee compliance with LSC requirements and ensure they follow the suggested audit procedures in the LSC OIG Compliance Supplement.

### **Accurately Document Carryover Funds**

LSC allows recipients to carryover up to 10 percent of their Basic Field Grants award to the next fiscal year without approval. Amounts exceeding 10 percent require a formal request and approval from LSC. QCRs often noted issues resulting from miscalculated carryover amounts and improper revenue recognition.<sup>2</sup> Requirements related to excess fund balances are addressed in Part 1628 – Recipient Fund Balances of the LSC OIG Compliance Supplement.<sup>3</sup> The LSC OIG Compliance Supplement includes various suggested audit procedures related to the review of carryover funds including calculating the grantee's prior-year fund balance. Also, grantees and IPAs should be aware of LSC [Program Letter 23-2](#), which contains guidance on revenue recognition and its relation to fund balances.

### **Ensure Financial Statements Are Provided by Grantee Management**

Grantee management should rigorously oversee the preparation of financial statements and notes to the financial statements. According to audit standards, these documents must reflect management's representations of the audited entity. Any involvement by the IPAs in preparing the financial statements and related notes must be clearly documented and disclosed to maintain the audit's integrity and to ensure compliance with Generally Accepted Audit Standards.

### **Document Compliance with Audit Standards**

We found three IPAs' work did not adequately document compliance with Generally Accepted Auditing Standards. In two instances, there was no evidence that the grantee provided prepared

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<sup>2</sup> Revenue recognition is the accounting principle that determines the specific conditions under which revenue is accounted for in the financial statements. LSC instructs its grantees to adhere to the Financial Accounting Standard Board's ASU-2018-08 for revenue recognition. Based on those standards, unexpended LSC Basic Field Grants should be reflected in the grantee's liability accounts.

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

financial statements to the IPAs. In another instance, an IPA did not include a timely analysis of an apparent going concern issue<sup>4</sup> in the audit workpapers. We recommend that IPAs implement protocols to ensure all required documentation is obtained, analyzed, and properly recorded in compliance with auditing standards.

### **Perform a Comprehensive Review of Program Activities**

The QCRs found that some IPAs attempted to document a review of “matters” in their case file testwork. However, based on LSC’s definition of “matters” such testing did not provide adequate review. “Matters” are defined in 45 C.F.R. § 1620.2 (b) as actions contributing to the delivery of program services but not involving direct legal advice to or legal representation of specific clients.<sup>5</sup> The LSC OIG Compliance Supplement includes suggested audit procedures to review program activities classified as “matters” to ensure compliance with the grantee’s written priorities.

### **Ensure Compliance with LSC Property Management and Reporting Requirements**

IPAs’ review of grantees’ compliance with LSC property management requirements<sup>6</sup> should include, but not be limited to, acquisition of property with LSC funds and inspection of property purchased with LSC funds. IPAs should also ensure any property purchased with LSC funds is disclosed in the audit report.

### **Enhance Documentation and Review of Staff Certifications and Agreements on Prohibited Activities and Non-Priority Cases**

Some IPAs noted that they were not aware of activities occurring which required certification or agreements. However, Parts 1610 – Use of Non-LSC Funds; Program Integrity, and 1620 – Priorities in Use of Resources, of the LSC OIG Compliance Supplement specify that such consideration should be adequately documented in the audit workpapers.

### **Maintain Consistency in Derivative Income and Attorney's Fees Reporting**

IPAs should review the results of derivative income and attorney's fees audit work and ensure the results are consistent with disclosures made in the audit report. There were instances where an IPA indicated in the workpapers that the grantee had not accepted any fee generating cases. However, the audit reported the acceptance of such fees. Audit testwork should review all derivative income to ensure the proper allocation of funds to the LSC grant.

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<sup>4</sup> A *going concern* refers to an uncertainty about an organization’s ability to continue operations in the foreseeable future.

<sup>5</sup> Additional information on “matters” including examples can be found at [eCFR :: 45 CFR 1620.2 -- Definitions](#).

<sup>6</sup> LSC’s property management requirement can be found at [eCFR :: 45 CFR Part 1631 -- Purchasing and Property Management](#) and section 3.6 of the [2023 LSC Financial Guide](#).

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 202-295-1582 or by email [rcaruso@oig.lsc.gov](mailto:rcaruso@oig.lsc.gov).

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